Welcome to the October Hotline. It is that time of year again when our attention turns to the Association of Corporate Treasurer's (ACT) annual Pensions Conference. The event, sponsored by Lane Clark & Peacock, features keynote sessions from MPs Peter Lilley and Frank Field and looks at pensions from all sides of the debate. The focus is on providing treasurers, acting either as a corporate risk manager or as a pension trustee, with the tools for examining the latest developments in the pensions market. To set the ball rolling, this month *The Treasurer* interviews Alan Pickering, Chairman of the European Forum for Retirement Provision on page 29 about his views on the future of pensions in the UK and across the EU. The Pensions Conference will be held on 23 October in London. For more details, please contact mrahman@treasurers.co.uk.■

COMPLIANCE

Another brick in the wall

The Financial Services Authority (FSA) is to look again at the effectiveness of 'Chinese walls' between research analysts and corporate financiers in investment banks, according to FSA Chairman, Sir Howard Davies.

Speaking at the Annual Dinner of the Confederation of British Industry in Scotland, Sir Howard gave an update on the responses to its consultation paper CP 171 on conflicts of interest in investment research and explained how the regulator aims to take forward the proposals in the paper.

The FSA's strategy is to achieve robust global standards of behaviour in this area and therefore the authority is seeking to put in place measures that are consistent with the draft EU Market Abuse Directive, the EU Prospective Directive and the findings of the International Organisation of Securities Commissions (IOSCO) on these issues. On particular areas of debate, Sir Howard promised new disclosures for 'Friends and Family' allocations on new issues and fresh curbs on the practices of spinning (the allocation of shares in sought-after issues to favoured customers for immediate re-sale at a profit) as well as laddering (offering allocations of lower-priced initially offered shares in exchange for a commitment to buy after market shares at agreed higher prices).

However, with regard to establishing greater independence within research departments, he admitted there was still much consultation work to be done.

Sir Howard said: "We expect firms not to allow analysts to attend pitches and roadshows, or to allow their compensation to be influenced by investment banking interests. We also believe the case is made for some strengthening of the rules on dealing ahead and on personal account dealing. But in some areas, such as the definition of research reports and the extension of these provisions to non-equity research, we are developing new proposals, on which we shall consult further." ■

*For more detail on CP 171, visit **www.fsa.gov.uk**.*

DERIVATIVES ACCOUNTING

Banking on a hedging change

The banking lobby looks poised to win a key concession from accounting standard-setters on the treatment of macro-hedges under IAS 39.

As discussed by François Masquelier in September's Spotlight (p56), banking associations have been highly active in discussions with the International Accounting Standards Board (IASB) on the possible implications of IAS 39 hedge accounting requirements on approaches to managing interest rate risk portfolios.

Their lobbying effort now appears to be paying dividends. The IASB has issued an exposure draft which, if adopted, will permit hedge accounting treatment for portfolio hedges within specified parameters. The UK Accounting Standards Board (ASB) has followed suit by releasing a parallel supplement to FRED 30, entitled *Financial Instruments: Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk.*

Both the IASB and ASB are keen to stress that the proposed relaxation of existing hedge accounting parameters should not be regarded as undermining the core principles on which IAS 39 is based. ASB Chairman Mary Keegan said: "Macro hedging techniques are widely used today and accounting standards that permit hedge accounting in general should not restrict unnecessarily its availability for macro hedges. It is, however, important that accounting standards are based on sound and consistently-applied principles." Comments are invited on the IASB exposure draft and the ASB Supplement by 14 November 2003.

This latest move reflects the fact that standard-setters are willing to respond to input from preparers and users of financial statements. This puts all the more emphasis on the work being undertaken by the ACT and the European Association of Corporate Treasurers in putting forward the views of treasurers who use risk management instruments that fall within the scope of IAS 39 (see Richard Raeburn's piece on page 54 and the July/August Hotline, p10). If you would like to be involved in the preparation of the ACT response to the consultation on the macro-hedging rules or to participate in the ACT's Derivatives Accounting Working Group, please contact technical@treasurers.co.uk. ■

Copies of the Supplement to FRED 30 are available £5 post-free from ASB Publications. Tel: +44 (0) 20 8247 1264.

IFRS

Lest we forget

The Financial Services Authority (FSA), in its capacity as the UK Listing Authority, has issued a reminder to UK-listed companies asking them to make appropriate preparations for the transition to International Financial Reporting Standards (IFRS). The move follows a survey by the Institute of Chartered Accountants in England and Wales, which revealed that:

- **a third of respondents were either "not very aware" or "not at all aware" of the publication of the relevant EU Regulation on the Application of International Accounting Standards (EC No 1606/2002); and**
- **less than half of respondents felt they were aware of the effect IAS would have on their company or financial statements.**

The FSA letter, signed by FSA Director of Listing Ken Rushton, has been sent to all companies with securities on the UK Listing Authority's Official List and describes readiness for IFRS as "vital". ■ www.fsa.gov.uk

FINANCIAL ACCOUNTING

Out with the old

The timing of the recognition of movements in provisions for de-commissioning costs has come under the accounting spotlight.

In several sectors, such as the power generation industry, companies face obligations to dismantle and remove obsolete or redundant plant and to make good any related environmental damage. Where such costs are anticipated, the future estimated liability should be measured and recognised under UK GAAP and International Financial Reporting Standards (IFRS), as set out in both FRS 12 and IAS 37. GAAP also contains similar requirements (in FRS 15 and IAS 16 respectively) for capitalising the initial estimates of such expenditure to form part of the cost of the related assets, for example, costs of decommissioning oil and gas installations.

The issue now addressed by the IASB's International Financial Reporting Interpretations Committee (IFRIC) is whether a change in the estimate of the liability should be capitalised (by adjusting the cost of the related asset) or recognised as income or expense in the current period. This issue is not presently addressed in IFRS, although UK GAAP provides guidance on this point in FRS 12. The IFRIC draft proposes that, where a liability is revised as a result of a change in the estimated future cash outflows or a change in the discount rate, the change should be added to or deducted from the related asset to the extent the change relates to the portion of the asset that will be depreciated in future periods. To the extent the change in the liability relates to the portion of the asset that has already been depreciated, it should be reported as income or expense.

This proposed treatment differs slightly from that set out in FRS 12. Paragraph 66 of FRS 12 requires that where a provision or a change in a provision is recognised, an asset should also be recognised when, and only when, the incurring of the present obligation recognised as a provision gives access to future economic benefits; otherwise, the setting up of the provision should be charged immediately to the profit and loss account. While this principle does not directly conflict with the IFRIC draft, FRS 12 does not specify that the change in a liability should be allocated between capital and income or expense in the manner proposed by IFRIC. If, for example, an asset is a quarter-way through its useful life when the liability is changed, under the IFRIC proposal only three-quarters of the change is attributed to the future use of the asset and capitalised; one-quarter of the change is attributed to the portion of the asset that has already been depreciated and is reported as income or expense.

Present practices in the UK allow the whole of the change in the liability to be capitalised and depreciated prospectively over the asset's remaining life. UK companies whose earnings may potentially be affected by this change may therefore wish to consider responding to the IFRIC consultation. ■

The text of IFRIC D2 Changes in Decommissioning, Restoration and Similar Liabilities *may be found on the IASB's Website www.iasb.org.uk. Comments are invited by 3 November 2003.*

MARKET ABUSE

Second chance

The Committee of European Securities Regulators (CESR) has released its second submission to the European Commission on the implementation of the EU Market Abuse Directive. This Directive has to be implemented by Member States by October 2004.

The document, Advice on the Second Set of Implementing Measures for the Market Abuse Directive (Ref. CESR/03-212c), was prepared by the CESR's Expert Group on Market Abuse and includes advice on:

- guidelines for determining accepted market practices;
- inside information on commodity derivative markets;
- the maintenance of insider lists by issuers;
- the disclosure of transactions by senior managers; and
- the obligation by financial intermediaries to report suspicious transactions. ■

www.europefesco.org

INSOLVENCY

Starship enterprise

New rules contained in the Enterprise Act 2002 will make UK corporate insolvency faster, fairer and more focused on rescue, according to the Department of Trade & Industry (DTI).

The changes to insolvency took effect from 15 September 2003 and include moves to abolish the Crown's preferential claim which, it is hoped, will benefit unsecured creditors, many of whom are small businesses. For example, the Inland Revenue and Customs & Excise are to give up their preferential rights to recover unpaid taxes ahead of unsecured creditors. In companies with floating charges created on or after 15 September 2003, a prescribed part of the funds available to the holders of such charges (typically banks) will be set aside for the benefit of the unsecured creditors. In all other cases, the benefit of the abolition will flow automatically to unsecured creditors.

On administrative proceedings, routes into administration without court orders will be introduced for floating charge holders, companies and their directors, removing bureaucracy and providing clear time limits. This will help the rescue of viable companies and achieve better results for the creditors of companies that cannot be saved. In addition, there will be new restrictions on the use of administrative receivers where a single secured creditor has effective control. Instead, the interests of all creditors must be taken into account when a company goes into administration. Commenting on the legislation, DTI Minister Gerry Sutcliffe maintained: "These new measures should help to promote a 'rescue culture' and help more companies survive when they get into financial difficulties. When it is not possible to save a company, these changes are designed to provide a better deal for unsecured creditors." **www.dti.gov.uk** ■

Further guidance on the impacts of the Enterprise Act 2002 on UK insolvency practice, as relevant to treasurers, will be provided in the UK country guide in the 2004 edition of The Treasurer's Handbook.

IN BRIEF

CLS Bank International (CLS Bank) is to settle payment instructions in four new currencies, bringing the number of currencies eligible for settlements to 11. Following regulatory approval, the Danish krone, Norwegian krone, Singapore dollar and Swedish krona have been designated as CLS Bank-eligible currencies. **www.cls-group.com**

A new guide to implementing BACSTEL-IP has been published by Eiger Systems. The new delivery channel replaces the BACSTEL service for all firms submitting electronic payments directly to BACS and must be adopted by 31 December 2005. **www.eiger.co.uk**

Gerling NCM has launched a new contract debt collection service for firms that suffer regular late payments. With the new service, customers contract out some or all of their debts to Gerling NCM for a retainer fee, plus a small commission on each debt recovered. The main goals of the service are effective cashflow management and debt control, according to the company. **www.gerlingncm.com**

Financial Technologies International (FTI) has launched StreetDirector, a global transaction lifecycle processing engine for managing and controlling transaction workflows. According to FTI, the system manages the automation of financial transactions from initiation in the front office through to settlement and custody. **www.ftintl.com**

Standard & Poor's has added a new feature to its website that allows 24-hour access to ratings and other data previously unavailable. The Credit Ratings Search offers S&P's ratings for issuers, instruments, and bond funds, corporate governance scores and servicer evaluations. **www.standardandpoors.com**

Summit Systems has released Summit FT, designed to enable treasury and capital market firms to drive user productivity and speed up transaction processing. The solution provides instant delivery of real-time data and services across the fixed income, treasury, derivatives and commercial lending markets, according to Summit. It also offers the ability to customise individual workspaces and to build composite pages from both Summit and external applications. **www.summithq.com**

Taxware and Velosant will merge and operate as a single organisation under the Velosant name. Velosant is an EBPP provider, while Taxware provides software to simplify the tax calculation and compliance process. Combined, the two will provide a broader set of financial supply chain automation solutions to CFOs, according to Velosant. **www.taxware.com**; **www.velosant.com**

BASEL II

Finding inconsistencies

With the Basel Committee's third consultative paper well in the works, some market watchers have expressed concerns over the impact that certain aspects could have on the market as a whole. In its response to the third consultative paper (CP3), Standard & Poor's (S&P) voiced those concerns.

Barbara Ridpath, Managing Director and Chief Criteria Officer at S&P Europe, explained the group's position: "While we support Basel II's efforts to improve banks' sensitivity to risk and encourage banks to improve their risk assessment and measurement, changes in the availability of credit arising from incentives created by the accord could have far-reaching effects on bank funding, the continued development of international capital markets, and the global economy."

The group highlighted inconsistencies in Basel II's calibration of risk and overly severe treatment of securitised debt as cause for much concern. **www.standardandpoors.com**

EURO CP

Leading the one-day revolution


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Unilever is the first company to use the euro commercial paper (ECP) market to issue one-day-maturity securities. Euroclear France provided the infrastructure used by Unilever since April 2003 to issue and settle one-day transactions. More than 100 Unilever ECP issues with next-day maturity have already been issued under the system, and Euroclear is the only clearing house to give same-day issuance and settlement services for the such transactions.

"The ability to issue next-day maturity paper in the ECP market provides issuers with a realistic alternative to using the US commercial paper market or bank borrowings for their overnight funding requirements," said Philippe Laurensy, Director and head of Fixed-Income Product Management at Euroclear. The placement of Unilever's overnight paper was initiated by Goldman Sachs and Deutsche Bank. **www.euroclear.com** **www.unilever.com**

FORTHCOMING EVENTS

REGIONAL GROUPS

Foreign Multinationals – When Things Really Go Wrong'. Speaker: Mike Duncan, Allen & Overy
28 October 2003, 18.00, Allen & Overy, One New Change, London, EC4M 9QQ.
Midlands – Tax Matters for Treasurers
17 November 2003, 18.30 for 19.00, PricewaterhouseCoopers, Victoria House, 76 Milton Street, Nottingham NG1 3QY.
South West – Networking meeting. Case studies
3 December 2003, Time tba, Venue tba

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

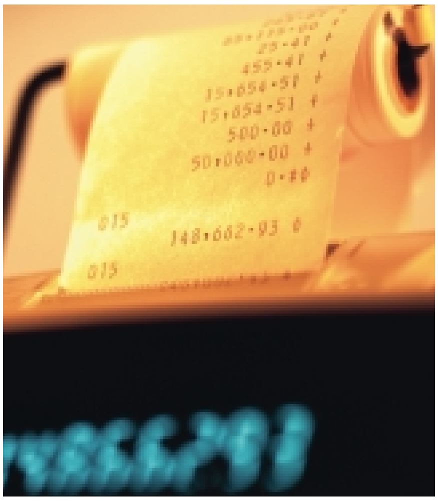
TEAM WORK

University challenge

Anyone interested in entering a Treasury team in the next series of 'University Challenge – The Professionals', then please contact Tim Westcott by email at **tim.westcott@motorola.com**.

CORPORATE TAX

Expensive reform



Reforms to UK corporation tax could prove expensive in the long term, according to a report by PricewaterhouseCoopers. The firm says that while consultation on the process is welcome, the implications for UK businesses – in particular the manufacturing sector – could be expensive.The government proposals suggest changes to transfer pricing regulations and leasing definitions, as well as a number of other changes. The transfer pricing rules, which require all transactions between associated companies to be undertaken on arm's-length terms, would be extended from just cross-border application to transactions within UK groups under the proposal. But PwC believes within the UK this would probably result in a substantial increase in the administrative burden of many UK companies.

The proposals also suggest that the capital allowances – or tax depreciation – in a finance lease transaction be given to the lessee as economic owner, rather than to the lessor as legal owner. But in years when the lessee does not have taxable profits, this means the lessee will receive no benefit from the investment incentives that are represented by capital allowances.

"Between these two measures, the consultation document proposals could be particularly expensive for UK manufacturers," says PwC partner Derek Jenkins. "It would be unfortunate if this cost caused the main thrust of the proposals, which involves a simplification of the existing complex rules built up over the course of more than 200 years, to be rejected." **www.pwcglobal.com** ■

An article on Transfer Pricing will be published in the November issue of The Treasurer.

PENSION REFORMS

Dam burst

The "dam has burst" on pensions as rising costs have triggered an acceleration in the number of employers moving away from final salary schemes, according to a report by the Confederation of British Industry (CBI).

The CBI report for 2003 claims companies have been increasingly priced out of final salary pensions and that almost half the employers with a final salary pension scheme last year have closed it, usually to new entrants. In the same report for 2002, only a quarter of firms had closed their scheme.

The CBI study found that, so far this year, 27% of firms are offering a final salary scheme, compared with 43% a year ago.

In a related report, the National Association of Pension Funds (NAPF), found that one-third of companies plan to review their final salary pension scheme during the next 12 months, and one in four companies have increased employer contributions in order to maintain funding levels. The most common type of pension scheme offered was a defined contribution scheme. **www.cbi.org**; **www.napf.co.uk**

■ *bfinance*

See The Treasurer*'s interview with Alan Pickering, pxx.*

PERCENTAGES

FINDING SYNERGIES

With more factors forcing organisations to change, corporate treasuries are increasingly co-operating to benefit from globalisation and critical mass, according to Nordic Financial Systems. A survey undertaken by the firm uncovered three main findings: corporate treasuries are co-operating to benefit from increased efficiency and reduced costs; there is no single solution for corporate treasuries faced with organisational change; and banks are reluctant to supply only funding. The research also found that treasuries find they have more synergies with each other than they do with other group functions within their own organisations. **www.nfs.se**

TMS GROWTH

Corporate treasuries in the UK are poised to add to their existing cash and treasury management systems (TMS) with the full integration of real-time global cash management, according to Trema. By integrating their real-time global cash management, corporate treasuries could greatly improve straight-through processing (STP) between business units, central treasury and banks, Trema reported. **www.trema.com**. *bfinance*

NOT ENOUGH DATA

Some 73% of corporate financial executives believe that standard GAAP reporting does not provide analysts with sufficient information about their company's liquidity, according to a report by SunGard Treasury Systems and GTNews.com. However, 75% also say that the information available to them about the liquidity of such executives' companies is sub-optimal. The results of the survey showed that financial executives in larger companies are concerned about banks and investors relying solely on GAAP-reported figures, and these executives place importance on additional cashflow data. **www.treasury.sungard.com** **www.gtnews.com**

MORE DATA DEFICIENCY

Three quarters (75%) of multinational corporations admit to having little or no confidence in the accuracy of their own cashflow forecasts, according to research conducted by REL Consultancy Group. Two-thirds of respondents believe problems with forecasting are the result of a lack of systems integration across business units; over 50% blame poor internal communications. **www.relconsult.com**

RISING SALARIES

New compliance requirements, such as those generated by Sarbanes-Oxley, pushed the responsibilities and salaries of finance and accounting professionals to new levels in 2003. According to a survey conducted by the Association for Financial Professionals (AFP), pay increased by 6.3% across the finance function in the US, with cash managers receiving a 10.3% increase. **www.afponline.org**

REMUNERATION CHANGES

Major anomalies in new accounting standards for UK share options could affect executive remuneration packages, according to consultancy Watson Wyatt. Accounting treatment on the two most common types of performance condition – earnings per share (EPS) and total shareholder return (TSR) – will be very different under the current proposals of the UK Accounting Standards Board (ASB) and the International Accounting Standards Board (IASB), according to the group, which will affect how and when share option plans can be used. **www.watsonwyatt.com**

INVESTMENTS

Eyeing up the alternatives

European pension fund managers now believe alternative investment strategies yield returns as good as or better than traditional investments, according to the JPMorgan Fleming European Alternative Investment Strategies Survey 2003.

The study found growing numbers of institutional investors are warming to the idea of allocating more cash to hedge funds or private equity funds.

BAT, Shell and Nestlé are all expected to invest some of their billion-pound pension schemes in hedge funds products by the end of this year. But many respondents claim a 'perceived risk' associated with alternative investing which prevents them from doing so. Across Europe, external funds of funds (50%) and external partnership offerings (51%) are the most popular strategies for investing in private equity. **www.jpmorganfleming.com** ■ *bfinance*

RATINGS

Defaults on the increase

Global default rates are on the decrease, according to Standard & Poor's. Rates were near the 5.5% mark at the end of August – well below January's levels, although still above the long-term average of 5.17%, according to the research. Easier lending conditions, reported by the Federal Reserve and the European Central Bank, have been associated with the decline in the high-yield default rate, and over the summer many firms reported looser borrowing conditions than three months earlier. A total of 93 defaults have been recorded this year on rated debt outstanding worth $46.7bn. **www.standardandpoors.com** ■

SECURITISATION

Low interest boon

The low interest rate climate has been a boon for users of securitisation and record-breaking issuance looks set to continue, according to the European Securitisation Forum (ESF).

With investors seeking an alternative to the volatility of the equity markets and issuers looking for cheaper financing, issuance in Europe's securitisation market is on target to eclipse the record of €157.7bn ($178.1bn) setin 2002.

New issue activity totalled €95.1bn in first half of 2003, an increase of 56% on the same period last year, said the ESF. The UK continues to lead the way, with 41% of the market by collateral. Its highly active and liquid mortgage industry helped contribute €32bn to Europe's overall MBS activity. A report by Standard & Poor's said firms were turning to securitisation as other forms of funding became more expensive or difficult to arrange. **www.europeansecuritisation.com** ■ *bfinance*

ACT NEWS

Committee changes

Editorial and Publications. There have been quite a few changes to the Editorial and Publications Committee in recent months. First, we would like to say thank you to our Chairman, Valerie Hawkes (left), who stepped down in July after five years as a member and four years as Chairman of the Committee, providing invaluable help and leadership to the Committee and the editorial team in the office.

Replacing Valerie is Paul Spencer (right), who will be a great asset to us with his wealth of experience, including a previous stint as Chairman of the Editorial Committee from 1988-1990.

Meanwhile, we have had to say goodbye to Dominic Bennett, George Sawtell, Caroline Shuffrey and Paul Wilkinson, who have stepped down due to increasing work commitments. We would like to thank them all for their considerable input into the Committee over several years.

Education. Caroline Shuffrey has also stepped down from her role on the Education Committee, having made a significant contribution over number of years.

Regional Groups. Alan Dick (right) of Scottish & Newcastle has taken over the running of the Scotland Regional Group. Bansi Shah has taken over the running of the London Central Group. He takes over from Julie Fabris, who has left to go on maternity leave – we wish her all the best for the future. (See p59 for contact details.)

Programme. Gil Rosen has resigned after several years of invaluable service to the Committee.

Volunteers. The Association is always looking for people to contribute to committees. If you are interested, please contact the relevant committee chairman or Richard Raeburn, rraeburn@treasurers.co.uk.

ACT concerns on accounting standards

"IAS 32 and 39 will, unless the IASB responds to what we are saying, threaten the established practice of centralised netting of group transactional currency exposures"

In this month's CE Report on p54, Richard Raeburn outlines the ACT's representations to the ASB and IASB regarding IAS 32 and 39.

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