# Italy creates superbank

**Italian banks Banca Intesa and Sanpaolo IMI have announced they will merge to create the largest bank in Italy and one of the top 10 in Europe, with a market value of about €77bn.**

**The deal is the biggest in European banking since Royal Bank of Scotland took over NatWest in 2000. It effectively creates a "national banking champion" for Italy.**

**Bank analysts were positive, with Deutsche Bank rating shares of both banks a "buy".**

**The new bank will have more branches in Italy than the current top player, UniCredit, although UniCredit will remain bigger further afield. It is the number two bank in Germany and the leader in Central and Eastern Europe.**

**Intesa will offer 3.115 new shares for each ordinary and preferred share in Sanpaolo. The merger will be completed by the start of 2007.** ■

# Pension liabilities hit private equity deals

Pension liabilities have started to leave their mark on private equity deals, with underfunded schemes causing a stir, according to an analyst survey.

The survey, by Mercer Human Resources, gathered statistics from 100 leading European private equity firms and found that 19% of respondents had pulled out of a deal because of underfunded pension schemes.

**Warner: Pension deficits affect price.**

Price negotiations have become more complex since the creation of the UK Pensions Regulator, with new rules stopping corporate transactions damaging pension scheme member benefits.

Eric Warner, Worldwide Partner at Mercer, said: "While large pension deficits will not always cause deals to collapse, they often have a major role in price discussions. Like it or not, vendors have to accept that an underfunded scheme could have a great impact on the value of their business."

The great majority of survey respondents (79%) said that increased competition from other private equity firms was a barrier to successfully completing transactions.

Edwin Charnaud, European Leader of Marsh's Private Equity and M&A Practice, said that the private equity market had seen significant change in recent years.

He said: "Competition for lucrative deals is acute, forcing many firms to work harder to stay ahead of their peers and to consider diversifying into new sectors and geographical markets. The risks associated with maintaining historic returns are therefore more pronounced."

Competition is viewed mainly as other private equity firms and not corporate buyers, despite the lower cost of capital and the increased liquidity that they can offer. ■

# Moody's to measure covenant strength

**In response to what it calls more aggressive corporate strategies, Moody's is planning to introduce a covenant research and assessment framework for non-financial corporate issuers.**

**The ratings agency said that the greater aggression of corporate strategies and inadequate document protections had weakened the position of bondholders *vis-à-vis* shareholders. The framework will place a high value on restricted payment tests and change of control provisions.**

**Moody's said that the burgeoning leveraged buyout market had forced a need for covenant assessments in Europe, raising concerns about investor protection in an adverse economy. The agency also cited the growing importance of shareholder activist and private equity firms in the current cycle of mergers and acquisitions.**

**Michael Rowan, Managing Director, Moody's, said: "The lack of meaningful covenants in bond indentures as event risk has accelerated and is an increasing concern among investors."**

**Following a trend that began in the early 1980s, a relatively standard set of protective covenants has given way to less restrictive covenants. In Europe, this trend has been accelerated by greater liquidity in the market following the introduction of the euro.**

**Moody's said it planned to implement a more systematic approach to analysing indenture covenants.**

**It will focus on certain key covenants it believes are critical for bondholder protection without "overly hampering a company's flexibility and ability to access liquidity".**

**Karl Fenlon, Head of Tax and Treasury at Hanson, said: "Given the changing corporate landscape and ongoing consolidation in our sector, we appreciate investors' concerns over change of control and were comfortable giving some protection in our recent $750m, 10-year bond issue.**

**"Personally, I think that, in a sophisticated market, investors are quite capable of analysing the degree of protection afforded by the language in any individual bond and assess this in the context of the particular issuer and the concerns they may have.**

**"This seems to me to be quite appropriate and would not be improved on by a covenant rating scale, which will presumably be either universal – ie, potentially inappropriate in some cases – or based on rating agency assessments built, at least in part, on privileged information."**

**During 2005, 45% of fallen angel rating actions by Moody's were driven by leveraged buyouts, mergers and share repurchases.**

**Moody's move follows work by the ACT, the Association of British Insurers and the Bundesverband Investment und Asset Management through the Bond Forum, which concluded that investors would value having a better understanding of covenant packages and their relative strength.**

**The consultation period is open until 12 October and the ACT will be submitting a response. To contribute comments, contact modonovan@treasurers.org.** ■

# SEPA fate hinges on banks

Banks must take the lead in preparing for the Single Euro Payments Area (SEPA) to ensure that both they and corporates are ready for the 2008 deadline, according to the World Payments Report 2006.

The report, carried out by ABN Amro, the European Financial Marketing Association (EFMA) and Capgemini, concluded that the success of SEPA would depend on the speed and efficiency at which national migration and implementation plans were implemented.

Anne Boden, Managing Director at ABN Amro Transaction Banking, said: "What is important is that banks start implementing now. Each country differs in terms of payment processes so we need to see nations making steps to put SEPA in place now."

Of those volumes, 13% are already SEPA-compliant, 45% are not compliant but show a manageable path towards compliance, while 42% currently fall significantly short of SEPA standards.

Bertrand Lavayssiere, Managing Director of Global Financial Services at technology consultancy Capgemini, said: "Banks need to look at their pricing strategies as SEPA is set to have a dramatic impact on that area."

The report warned that the gaps between SEPA requirements and national practices would make the road to implementation and migration a challenging one.

Ann Cairns, Chief Executive Officer at ABN Amro Transaction Banking, said: "The implementation and migration journey to SEPA

Boden: Banks must start implementing now.

Lavayssiere: Dramatic effects on bank pricing.

Many European banks already use instruments that would fit into SEPA. A total of 85% of all non-cash payments are already made using SEPA-type instruments in the six of the euro currency countries surveyed.

will not be easy. Banks will need to address their pricing strategies and sourcing options for payment activities and for some this will mean strategically repositioning their whole payments business." ■

# Europe's working capital efficiency stalls

Working capital efficiency among Europe's 1,000 largest public companies is at a standstill according to research into 70 sectors.

Data compiled by consultancy Hackett-REL on behalf of *CFO Europe* showed that days working capital (DWC) fell in 2005 by an average of 0.6% to 44.3 days, compared with 3.3% and 5.1% falls in 2004 and 2003 respectively.

Hackett-REL defines DWC as year-end net working capital (trade receivables plus inventory minus accounts payable) divided by sales per day.

In essence, this figure represents the amount of time that cash is tied up in the business. So the fewer days, the better.

The slowdown in improving DWC can be attributed to the increasing amount of cash that corporates across Europe have on their balance sheet. According to figures from research company Dealogic, companies have been using this cash – rather than raising equity – to pay for acquisitions.

Drawn from the latest published financial statements, the Hackett-REL research also found that days payable outstanding (DPO) had improved by 3% to 43.3 days. The lengthening of DPO suggests that large European companies are asking suppliers to shoulder more of the working capital burden by making them wait longer to be paid. ■

# Mandelson to shake up EU trade policy

**EU trade policy will focus on defending Europe's open attitude to imports while adopting a more active approach to emerging markets, and securing fair treatment for EU companies abroad, according to the latest European Commission review.**

**Delivering the annual Churchill Lecture in Berlin, EU Trade Commissioner Peter Mandelson argued that the EU needed to make trade policy an integral part of its economic reform strategy.**

**October's trade policy review will argue that the EU should attempt to build on and complement its commitment to the multilateral World Trade Organization trading system by striking a new generation of bilateral free trade agreements with key growing markets.**

**Europe remains competitive in global export markets but is losing ground in high-technology products and the fastest-growing markets.**

**Mandelson argued that while European companies were succeeding they were underperforming in emerging markets such as Asia.** ■

Mandelson: EU companies underperforming in high-tech products and emerging markets.