Deals of the Year Awards under way

The 2008 Deals of the Year Awards have been launched with updated deals categories and two Team of the Year awards. The main Awards categories now have four principal themes:

- bonds;
- loans, with three sub-categories based on the sizes of transactions;
- corporate finance; and
- liability management.

The Team of the Year Awards are now split into two categories:

- Treasury Team of the Year, for companies with a market cap over £2bn; and
- SME Treasury Team of the Year, for companies with a market cap under £2bn.

The Awards will be judged by our expert panel, which brings together experienced practitioners from the corporate, banking and advisory worlds, all of whom have contributed to many successful transactions in the financial markets and who have an understanding of the qualities needed for successful treasury management.

Nominations for all Awards will be collated from across the ACT's membership, the readers of The Treasurer and the financial services community: banks, advisers, consultants and IT suppliers. We would urge all readers to visit the ACT website for more information and to encourage their colleagues, bankers and others to do the same.

For more detailed information, please visit www.treasurers.org
The 2008 Deals of the Year Awards are proudly supported by Lloyds TSB Corporate Markets.

THE TREASURER Deals of the Year ACT
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IMMFA rushes to reassure as bond 'breaks the buck'

The Institutional Money Market Funds Association (IMMFA) has hastened to reassure jittery investors after last month's collapse of Lehman Brothers resulted in a US-domiciled fund 'breaking the buck' for the first time in 14 years.

The IMMFA swiftly issued a statement on 17 September after Reserve Management Corporation admitted that its fund, managed out of New York, had failed to maintain a $1.00 net asset value because of its exposure to Lehman debt securities.

The association stressed that Reserve Management was not one of its members, nor belonged to the Investment Company Institute, the other recognised trade association for money market funds.

Although IMMFA does not usually comment on individual funds' holdings, it said that it had consulted members to ensure the "extremely rare event" was an isolated incident and related solely to Lehman.

Investors, declared IMMFA, could rest assured that the "fundamental structure of money market funds remains sound", having experienced "significant growth" over the past year in testing market conditions.

IMMFA members' money market funds are authorised under Europe's Undertakings for Collective Investment in Transferable Securities (UCITS) Directive, the association added, and had all been awarded the highest fund ratings from independent ratings agencies. In addition, they have meet the IMMFA's code of practice on appropriate risk. ■

ACT opposes proposed SEC change to use of credit ratings

The SEC is proposing to reduce the use of credit ratings throughout its rules.

The US regulator is concerned that investors are placing undue reliance on credit ratings and may interpret their use in laws and regulations as an endorsement of the quality of the ratings.

The ACT's response to the SEC's consultation has concentrated on the consequences for money market funds complying with rule 2a-7.

The rule as it currently stands requires money market funds to invest in paper that is rated in the top two categories.

The ACT believes that rule 2a-7 products are well understood and work well, and that investors take some comfort from the credit rating requirements of the rule.

There is a danger that any "apparent" weakening of the rules around 2a-7 money market funds could cause a disturbance to the market and a loss of confidence.

For these reasons the ACT does not support the changes proposed by the SEC. ■

Stephen Jones AMCT

Sadly, we have learnt of the death of Stephen Jones, AMCT, most recently treasury manager of Heritable Bank.

On the move...

- **John Jackson**, previously group treasurer at Scottish & Newcastle, has been appointed group treasurer designate at Weir Group.

- **Tom Milligan**, AMCT, has been appointed group treasurer at British Midland Airways. He was previously at John Menzies.

- **David Shepard**, AMCT, previously treasury manager at easyJet, has been appointed assistant group treasurer at Liberty International.

MEMBERS' DIRECTORY

Members' contact details are updated regularly at **www.treasurers.org**. *Email changes to Tolu Babatola:* **tbabatola@treasurers.org**, *or phone +44 (0)20 7847 2558.*

CAREERS

For up-to-date treasury vacancies and careers articles, log onto: **www.treasurers.org/careers**

IASB stability projects making 'good progress'

The International Accounting Standards Board (IASB) says it has "moved swiftly to deal with issues highlighted by the credit crisis" and made "good progress" since April towards meeting the goals established by the Financial Stability Forum Report.

As the illiquidity fall-out rapidly intensified last month, the IASB issued a mid-September update to members on its projects to address the crisis, together with a draft report on discussions by its expert advisory panel on the disclosure of fair value when markets are no longer active.

IASB chairman Sir David Tweedie said: "Accounting is not the cause of the credit crisis, but it is important that market participants should have confidence in the information presented with financial statements.

"It is for this reason that the IASB has been monitoring the performance of international financial reporting standards and has moved swiftly to deal with issues highlighted by the credit crisis."

Sir David said speeding up completion of the projects agreed with the Financial Accounting Standards Board (FASB) would also help the capital markets by defining a single set of high-quality standards for global use, which would reduce the possibility of accounting arbitrage.

Tweedie: confidence important

Mercer detects new thinking on pension scheme valuations

Turner: follow this closely

FTSE 350 companies are rethinking the assumptions they typically use in valuing their pension schemes and reviewing the methods of selecting discount rates, according to consultancy and investment services group Mercer.

Mercer has reported a "significant divergence" between the interest rates used to discount scheme liabilities and AA corporate bond indices, with most companies deciding it is no longer safe to use an unadjusted index yield for the discount rate.

Accounting guidelines require companies to use the yield on "high-quality" corporate bonds – usually assumed to be those rated AA or better – to value their pension scheme liabilities.

But continuing volatility in the global markets has widened the range of yields on AA-rated bonds to the point where some may no longer qualify as high quality. Yields at the longer durations appropriate to pension schemes are also significantly lower than yields at shorter duration.

In March 2007, most companies used a discount rate equal to the yield on the iBoxx AA 15yr+ index, but research suggests few are now basing discount rates solely on the benchmark yield, with the majority using a lower discount rate.

"It will be interesting to follow this development closely in future years to find out whether the divergence between discount rates and index yields is purely a result of current market conditions or if this is signalling a long-term change in methodology," said Phil Turner, principal at Mercer and head of its global accounting group.

Mercer also said that last month's offloading of £1bn in pension liabilities by Cable & Wireless should not necessarily be emulated by other companies with pension schemes.

C&W's defined benefit pension fund trustees purchased an annuity policy from Prudential, marking the largest-ever UK transfer of retirement liabilities. But Dave Robertson, worldwide partner in Mercer's financial strategy group, said: "Risk reduction and improved security are often cited as key motivators behind such deals. However, tying up a significant part of the asset base in addressing the least risky liabilities would not be a sensible action for many schemes.

"Feeling that you have secured a substantial element of your liabilities may seem like a major step forward. However, in terms of risk reduction, the selling of bonds, cash and swaps – often held in respect of pensioners – and the purchase of an annuity policy may have limited impact, and will not necessarily mean increased security for the overall membership." ■

SEPA's high payment failure rate costs banks £21bn a year

Despite the promised benefits of the Single Euro Payments Area (SEPA), Europe's banks are still paying dearly for failed international payments, according to banking software supplier Misys.

A Misys survey of European banks estimated that 41% of cross-border commercial payments failed each year. Based on an average repair cost of €36 for each of the 574 million failed transactions, the total annual bill could be €21bn.

Misys said the figures contrasted with SEPA's stated aim of reducing the complexity and cost of payments by facilitating straight-through processing (STP) or end-to-end automation of transactions.

A European Commission report earlier this year valued the potential benefits of SEPA to banks, businesses and consumers at €123bn over six years.

"Little more than a third of cross-border commercial payments are completed using STP today," said Barry Kislingbury, Misys' global product manager for payments and financial messaging. "Banks are left with the cost of putting these payments back on track – costs they are unable to pass on to customers.

"With global trade volumes continuing to hit double-digit growth each year, the problem is only going to get worse. The only remedy is to reduce the incidence and cost of payment failures." ■

Revisiting ratios


Kirkham: dilemma

Margaret Thatcher's declaration that you can't buck the markets is being challenged. Asset managers including central banks have banked profits on their sterling and euro holdings and piled into dollars in a major reallocation of currencies within their reserves. This move has been accelerated by the recent decoupling of commodity prices and the US dollar.

What may appear as a counterintuitive move has left corporate treasurers, asking, "What next"? as not so long ago strong arguments were voiced for central banks to reduce the ratio of dollars they held.

Central banks and hedge funds don't explain their strategies or motives. So those managing corporate foreign exchange risk would not have a clue whether these decisions represent a single step change, which will happily lead to more currency predictability – or a speculative move aimed at making the most of currency uncertainties.

Ahead of any indication the US economy is recovering, these market professionals may have made a judgement call: that by taking a lot of pain quickly, the US is further along the recessionary curve than other economies – and that the only way is up.

Or have the Dragon and Asian Tiger economies, dependent on a diet of raw materials, decided to accumulate dollars to restrain their currencies and protect exporters from the pain of an extended downturn?

Whatever the drivers, the outcome is the same. A rising dollar will curb commodity prices – a reversal that is already apparent. The dampening effect that will have on inflation may allow earlier interest rate cuts than previously anticipated.

Corporate treasurers face a dilemma: with external factors apparently driving the direction of foreign exchange and interest rates, treasurers have to decide themselves whether to buck the markets or protect their foreign exchange and interest rate moves from events beyond their control.

Tim J Kirkham
Executive Director
Head of UK Corporate Sales
Fortis Bank SA/NV UK

Pessimistic SMEs cut costs, axe staff and protect cashflow

UK businesses are cutting costs and preserving cashflow, with 84% reporting a sharp deterioration in the overall economic climate in the past 12 months, according to chartered accountants and business advisers MacIntyre Hudson.

In a survey of 500 small and medium businesses, MacIntyre Hudson also found that 83% were concerned for business prospects in the year ahead, and 55% reported that trading conditions in their particular sector had grown tougher since the credit crunch began.

In response to this more difficult environment, three in four of the companies surveyed had introduced tighter control of operational expenditure, with 44% reducing their capital expenditure, and 30% cutting their head count.

The importance of cashflow had also been recognised, with 47% of firms tightening credit control for existing customers, and 44% applying stricter credit assessments for new clients.

Andrew Burnham, principal at MacIntyre Hudson, said: "Despite the high level of anxiety among the business community, 26% say their business is doing better than last year, and a further 19% say trading is much the same.

"Yet many are taking protective measures even though they have yet to experience any downturn themselves. For them, fear is the driving force. This response is both rational and sensible, but illustrates the problem for policy-makers in re-establishing the business confidence and spending required for economic growth to resume."

The survey also found that businesses with borrowings feel most exposed to the downturn, with 89% reporting a significant deterioration in business conditions and 63% that trading in their own business has become more difficult.

Of those indebted businesses 63% have found both that the interest rate at which banks will lend to them has risen and the terms of lending have become stricter. These firms are also cutting costs at a greater rate than businesses without debt, with 81% imposing stricter expenditure controls and 40% shedding staff. ■

JPMorgan picks its moment

As Lehman Brothers foundered, Merrill Lynch surrendered its independence and AIG sought a multibillion-dollar rescue last month, JPMorgan unveiled an investment of more than $1bn to expand its services.

The group's announcement on day two of the Sibos trade fair in Vienna coincided with one of the financial market's blackest days.

The group says its treasury services arm will use the investment to improve its cash management and treasury liquidity offerings while "expanding its global footprint and reinvesting in its technology solutions".

Melissa Moore, chief executive of the group's Treasury Services business, said: "While many banks are curtailing treasury investments, selectively downsizing their global footprint due to the current economic environment, JPMorgan is taking the opposite approach.

"In conjunction with our substantial investment plan, we are expanding the JPMorgan footprint in every region in the world."

Among the initiatives that will result are the launch of a single global platform, expansion of the group's international payments offering, and an enhanced financial supply chain offering. ■

LSE crash sounds e-business warning

The power outage that disrupted trading on the London Stock Exchange for most of the 8 September session should serve as a warning to all companies, according to load testing and website monitoring company Site Confidence.

"Even in these economically uncertain times when budgets are constrained, all companies – even those as established as the LSE – need to focus time and resources on repairing faults and maintaining their website availability," said the group's operations director Bob Dowson.

"Users expect sites to be consistently fast, efficient and reliable. At a time when customer satisfaction is of paramount importance, companies need to test and monitor online performance, particularly to ensure that their sites can cope with bursts of activity from potential new customers."

The computer failure, which caused the most prolonged interruption to equity trading on the LSE in eight years, came only two weeks after the exchange sharply cut fees in a bid to fend off competition.