

PRESS RELEASE

The Association of Corporate Treasurers

ACT response to European Commission's paper on OTC derivatives: risk of large cash drain on non-financial companies

London

28 August 2009

Non-financial sector companies using derivatives to hedge their risks would require to keep large amounts of extra financing available if they are caught up in regulators' attempts to reduce systemic risk within the financial sector.

This is the principal concern of the Association of Corporate Treasurers in their response to the European Commission consultation on "Over The Counter" (OTC) derivatives markets.

The concern arises because companies hedge their exposure to future cash flows. The future cash flows offset the hedges and vice-versa. OTC derivatives, agreed between banks and their corporate customers usually require no cash flows prior to maturity – corporate credit risk is one of things banks exist to take. But if regulations require corporate parties to provide collateral to their counterparty during the life of the derivative, the hedge cash flows become immediate and companies would have to finance them up to maturity. This could be a material burden for many companies.

The full text of the ACT's response is available at
www.treasurers.org/OTCderivatives/EUproposals/ACTresponse

Notes:

The text of the Commission's consultation is at
http://ec.europa.eu/internal_market/consultations/2009/derivatives_en.htm.

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Should editors wish to commission an article from the ACT, please contact Sharon Newell (as above).

NOTES TO EDITORS

About the ACT

The Association of Corporate Treasurers (ACT) is the international body for finance professionals working in treasury, risk and corporate finance. Through the ACT we come together as practitioners, technical experts and educators in a range of disciplines that underpin the financial security and prosperity of an organisation.

The ACT defines and promotes best practice in treasury and makes representations to government, regulators and standard setters.

We are also the world's leading examining body for treasury, providing benchmark qualifications and continuing development through training, conferences and publications – including The Treasurer magazine.

For further information visit www.treasurers.org