CESR and SEC launch work plan

The Committee of European Securities Regulators (CESR) and the US Securities and Exchange Commission (SEC) have joined forces to help companies using both US generally accepted accounting principles (GAAP) and international financial reporting standards (IFRS).

The aim is to strengthen the links between the two regulators and to discuss the modernisation of financial reporting, disclosure information technology, and regulatory platforms for risk management.

Chairman of CESR, Arthur Docters, said: "The introduction of IFRS in Europe provides a dynamic opportunity for convergence in the EU and a benefit to global financial markets."

CESR and SEC will co-operate to make US GAAP implementation in the EU and IFRS implementation in the US run more smoothly. ■

Corporates crawl to IT 'goldmine'

A study has revealed that most companies still rely on manual processes for treasury and cash management, thereby missing out on the "strategic goldmine" that enterprise financial management software creates by reducing costs, mitigating risk and increasing investment yield.

The Trema-sponsored study by Aberdeen Group, *Setting PACE in Treasury and Cash Management*, shows that most of the 160 companies (19% of which were from Europe) surveyed lacked integrated processes for managing cash.

Despite this technology gap, almost 60% of respondents ranked improving the accuracy of cashflow forecasting as their number one risk management goal. Most companies (42%) were already seeking ways to simplify treasury and cash management processes, and a third hoped to centralise treasury operations.

Respondents cited three key areas for optimising treasury: centralised reporting, accurate forecasting and strong decision-making on working capital/liquidity.

A copy of the full report is available at www.trema.com. ■

Germans top pension exposure league

Pension deficits represent over 12% of the corporate value of blue-chip German businesses, which have a pension risk exposure almost 20% higher than that of UK and Dutch companies, according to research into pension liabilities.

Mercer Human Resources undertook the research into the biggest listed companies in Germany, France, the UK, the Netherlands and the US to help investors assess pensions risk in the major European financial markets.

The study also revealed that the bulk of German pension liabilities was unsecured by assets despite large-scale voluntary funding by some firms.

Tim Keogh, Worldwide Partner at Mercer, said: "The research shows how much risk top European companies are shouldering in their pension schemes. Pension liabilities have a large bearing on the financial structure of major German-owned companies, with UK and Dutch-based firms following close behind."

Keogh explained that companies would remain exposed to longevity risk despite schemes being secured by assets.

He said: "If life expectancy increased by 10%, the effect on German companies would be 20% greater than on UK and Dutch firms, and three times more than on French organisations."

While German companies had a significant proportion of unfunded pension liabilities, the research showed they were putting much more into their schemes than needed to cover the cost of new benefits.

In 2005 German-owned companies contributed £3.27 for every £1 of pension benefits credited to employees, compared with £1.56 by FTSE 100 companies.

Keogh said: "Traditionally, German firms simply treated their pension commitments as a balance sheet liability, along with other long-term borrowings, but attitudes are now changing." ■

	GERMANY	FRANCE	UK	NETHERLANDS	US*
	DAX 30	CAC 40	FTSE 100	AEX 25	S&P 500
Value of companies (market capitalisation)	£526bn	£852bn	£1,557bn	£419bn	£6,391bn
Pension liabilities (IFRS/US GAAP)	£161bn	£84bn	£412bn	£110bn	£953bn
Pension assets	£98bn	£48bn	£367bn	£101bn	£793bn
Deficit/unfunded	£63bn	£36bn	£45bn	£9bn	£160bn
Level of ring-fenced funding (assets/liabilities %)	61%	57%	89%	92%	83%
Gross pension exposure (% market cap)	31%	10%	26%	26%	15%
Deficit as % company value	12%	4%	3%	2%	3%
New benefit accruals as % of company value	0.68%	0.28%	0.51%	0.67%	0.35%
Contributions to deficit as % of company value	1.53%	0.23%	0.29%	0.30%	0.36%
Contribution per £1 benefit accrual value	£3.27	£1.82	£1.56	£1.44	£1.63

*** including post-retirement healthcare – the bulk of the unfunded liabilities for the US related to post-retirement healthcare; US pension plans had assets in aggregate equal to liabilities as at 30 June 2006, whereas healthcare plans were only 24% funded.**

Agencies await compliance findings

Rating agencies and market participants are awaiting the findings of a Committee of European Securities Regulators (CESR) survey on the International Organization of Securities Commissions (IOSCO) code of conduct.

In response to the European Union's formal request for information on rating agency compliance with the code, CESR sent questionnaires to market participants to gather information and details of how the code was being applied.

The deadline for comments was 15 August and the survey findings will be combined with a wider report to be given to the EU.

A Financial Services Authority spokesman said: "The FSA welcomes this work and considers it important because credit rating agencies are playing an increasingly important role in efficient capital markets.

"The questionnaire represents an important opportunity for regulators to gain an insight into the day-to-day application of their codes of conduct."

When responding with details of experiences with rating agencies, participants were asked to state which agency they were referring to.

The overall report on the code of conduct will consist of two key sections. The first will look at any areas of IOSCO's voluntary code that some credit rating agencies have chosen to explain rather than comply with. This information has been gathered by CESR from specific agencies.

The second section will address the level of day-to-day application of the code. As well as issuing questionnaires, CESR has liaised with agencies on this area.

The full report is due to be published in October. ■

Hybrid bond finances BOC acquisition

Europe has seen yet another successful hybrid bond issuance, this time from German gas and engineering company Linde AG.

On 7 July, the company announced the pricing of the €1.05bn two-tranche offering through Linde Finance BV.

The £250m tranche was priced at gilts plus 345bp, achieving a coupon of 8.125%.

The €700m tranche was priced at mid-swaps plus 312.5bp, achieving a coupon of 7.375%.

Erhard Wehlen, Head of Finance at Linde, said: "While looking at how we could successfully finance the acquisition of UK company BOC we found that many acquisition financing mixes were not suitable.

"We chose to issue a hybrid bond due to the benefits that it provided for us with the mix of debt and equity. This was appropriate for what we were trying to achieve."

The transaction was significantly oversubscribed. Barclays Capital, Citigroup, Dresdner Kleinwort and UBS Investment Bank acted as joint bookrunners on the transaction.

This bond with its link to UK industrial gas company BOC Group represents the first hybrid bond associated with the UK (see Deals, p10).

Wehlen said: "It has had a good response from the market and we are very pleased with that.

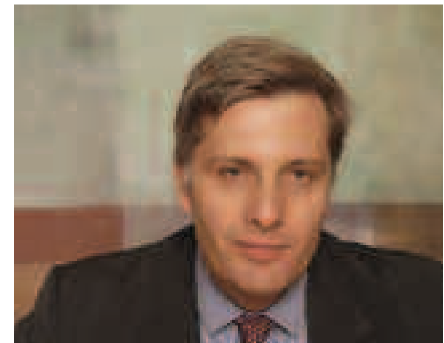
"It is the first hybrid bond in the UK and it could possibly open up the floodgates and make way for UK hybrid bonds in the future." ■

Euro zone interest rates on the rise

The European Central Bank has taken steps to combat fears of emerging inflation by raising the interest rate by 25 basis points to 3%.

The increase came after inflation in the euro zone hit 2.5% for a three-month period, making the latest increase seemingly inevitable.

David Owen, European Economist at Dresdner Kleinwort, predicted that it would not be the last increase in the euro zone.



David Owen: interest rates to rise still further.

He said: "We are still expecting interest rates to rise to 3.5% by the end of this year and 4% after that. We don't see that this will completely solve the problem, but it certainly has potential to ease levels."

Despite the increase, the ECB's rate for the euro zone remains lower than that of the Bank of England, which raised its rate for sterling to 4.75% in August.

Owen said: "The ECB rate increase will make a difference to certain countries in the euro zone. For example, some countries will get closer to their eventual tipping points. This will be countries such as Spain and Ireland.

"We don't know whether this will lead toward recession." ■

Excellence in treasury

The Treasurer is delighted to announce that its prestigious Deals of the Year Awards lunch, sponsored by Lloyds TSB, will take place on Friday 19 January 2007 at 12.15pm in London.

Attendance is by invitation only to corporates and bankers working on the shortlisted deals.

To find out more about *The Treasurer*'s Deals of the Year, please contact Mike Henigan at mhenigan@treasurers.co.uk or +44 (0)20 7213 0723