UK TAX

Gains and loans in foreign exchange

On 26 July, the Inland Revenue issued a consultative document on Corporate Debt, Financial Instruments and Foreign Exchange Gains and Losses, downloadable from **www.inlandrevenue.gov.uk/consult_new/corpdebt.pdf**. Comments are required by 12 October 2001.

The document follows consultations late last year, when responses were received from 14 representative bodies and from each of the 'Big Five' accounting firms. Only five individual companies responded, mostly on single issues affecting them. Some of the previous representations have been accepted, while others have been overruled as explained in the new document.

The rules on foreign exchange gains and losses in FA 1993 are to be abolished. FX differences on derivatives are to be assimilated into the financial instruments rules in FA 1994 and FX differences on loans into the loan relationship rules in FA 1996. As well as restructuring the legislation, major changes are being made to the operative tax rules. They will affect almost every corporate treasurer. In this note, it is only possible to give some key highlights.

The new rules will be in the Finance Bill 2002 and apply to accounting periods starting on or after 1 January 2002. However, several anti-avoidance measures will apply from 26 July 2001. The anti-avoidance measures effective immediately include:

- tax deductions for exchange losses and for payments under derivative contracts are denied to the extent that the loan or derivative had a tax avoidance purpose;
- changes to the definition of convertible debt and asset linked debt, so that many existing debts cease to qualify; and
- FX differences on convertible debt assets are now taxable/deductible.

Companies can presently elect in specified circumstances to 'match' FX differences on hedging positions against FX differences on the underlying investment. Matching will cease to be elective, and will be restricted to cases where hedging is by means of loans, not currency swaps or forwards.

A number of transitional provisions dating back to the introduction of the foreign exchange rules, and 'little used' reliefs such as deferral of certain unrealised foreign exchange gains are being abolished. While obscure, these changes may have a big effect on those companies specifically affected by them.

Where companies would be adversely affected by the changes, representations may be worthwhile. Companies also need to urgently review the impact of the anti-avoidance changes to consider if action is required. ☐*Mohammed Amin, PricewaterhouseCoopers.*

CB COMMENTS: The Inland Revenue's further consultation document on taxation of corporate debt, financial instruments and foreign exchange gains asks for comments by 12 October.

Although we welcome the consultation, we are concerned that the consultative period is extremely short. Worse, some of the changes took effect immediately.

A further aspect to consider is that while we have been lobbying for the opportunity to simplify the overly complex rules in this area of tax, to change an accounting based tax regime not long before major changes are planned in accounting for financial instruments seems bizarre.

The Association will be producing a response to this consultation. Many companies, especially those who have been developing or using structured products, will be affected by the proposed changes. We would very much like to hear from them to add weight to the technical committee's response. ☐*CB*

For comments on Hotline or news, please contact Caroline Bradley at **cbradley@treasurers.co.uk**. Additional technical updates are available at **www.treasurers.org**

FINANCIAL INSTRUMENTS

Banking industry concerns

Although responses to the Joint Working Group (JWG) proposals for accounting for financial instruments were submitted (or were due to be submitted) by the end of June there has been little or no comment in the press. However we have seen the British Bankers Association (BBA) response which makes some interesting points.

The BBA says that the banking industry is concerned about the effect that the JWG proposals would have on the financial stability of its corporate client base. They also question the value of accounts to banks as users, under these proposals. They focus on three particular aspects which we also covered in our response:

- understandability of the figures;
- the treatment of anticipated future transactions; and
- 'own debt'.

Taking the last of these, as a company's credit standing declines the 'fair value' of its debt also reduces, producing a profit that would require immediate recognition. The BBA notes that, by its calculations, a large US telecommunications company that this year reported a loss would, under fair value, have reported a pre-tax profit in excess of $5bn. This is as a result of the fair value gain arising from its own debt being devalued.

They further point out that, in the unlikely event of a company in a state of credit deterioration having the cash to redeem the debt, the market price would not be the same as the accounting 'fair value'. They agree with our conclusion that the integrity of the financial reporting framework is at risk from these proposals. The BBA response is available in full at **www.bba.org.uk/businesses**.

Members who have not yet seen the Association's response to the JWG proposals and the subsequent press release can find them on the website at **www.treasurers.org/know/services/tech/acctfi.htm** ☐*CB*

Ian Mullen of the BBA writes on page 37

GROUP FINANCING ARRANGEMENTS

Problems with distributable profits

Members may find in future that perfectly reasonable arrangements for financing group companies may fall foul of guidance to be issued shortly by the ICAEW on whether upstreamed dividends qualify as distributable profits.

The Association commented on the initial version of the ICAEW proposals (Tech 6/99) as well as Tech 25/00 published in August 2000. Our primary concern was with the proposed definition of distributable reserves in group transactions where a subsidiary paid up a dividend but also received additional funding from the parent at some stage. The proposals were extremely vague as to whether any particular transaction would qualify or would be deemed "linked".

The Association has recently responded to the latest and probably final version of this guidance. While we believe that the guidance is clearer than it was, the fundamental problem remains. Treasurers will still be unable to plan group transactions with a reasonable level of confidence as to whether transactions are (or may be deemed) linked, how long a gap is sufficient between different stages of a linked transaction, whether intra-group loans are expected to be repaid and so on.

Clearly there will always be scope for judgement on these issues but the scope in this case seems to be too great. Because of this, our worry remains that different accounting bodies will interpret the guidance in different ways and this will provide an additional source of uncertainty for UK corporates. We hope that the guidance will only go forward once it has widespread support. ☐*CB*

LOAN TRANSFERABILITY

Best practice for whom?

In July, the Loan Markets Association (LMA) issued a paper on loan transferability. There is some concern in the syndicated loan market that unless liquidity improves borrowers could find it increasingly difficult to raise funds. The LMA paper explores some ways that liquidity in the loan market can be improved. It also sets out practical guidance for LMA members on certain aspects of loan transferability in order to establish a standard for 'best practice'. For the most part it is a statement of what you would expect the LMA to say about loan transferability and current developments. There are, however, several surprisingly bold statements that may give borrowers cause for some concern. Most notable of these are the following:

1. Borrower consent to loan transfers should not be required for a fully drawn term loan. (Note this is not current market practice).
2. Borrower consent to loan transfers should not be required in circumstances where there is a Default or Event of Default. This also is not generally regarded as current market practice (although it is commonly seen) and borrowers tend to be very reluctant to accept that their lenders should have this freedom.
3. The paper also highlights the point that placing restrictions on formal loan transfers is somewhat strange when there are now so many other means by which lenders can pass off their risk without any input from the borrower. It goes on to suggest that ultimately there should not, in general, be restrictions on transfers and that "relationships should be based on mutual trust rather than on specific documentary provisions". Although the logic behind this is clear, borrowers are likely to take a different view and 'ultimately' could be a long way off!

The Association has some concern that the LMA has issued into the market place a series of principles which they say should be regarded as 'best practice', even though those principles represent a shift from current market practice.

As ever, borrowers will decide how much to concede in the light of their own requirements and the state of the market. It seems that the banks are expecting a tightening up of the market and will use the opportunity to impose freer transferability on borrowers and shift 'current market practice' closer to 'best practice'. Borrowers should take note that there is still a significant difference between the two. ☐*CB*

On page 23 we publish a contribution to this debate by Mark Daley of Berwin Leighton Paisner.

M&A ACCOUNTING

Trouble ahead

There could be trouble ahead for UK companies undergoing restructuring if the International Accounting Standards Board (IASB) decides to adopt the US stance on merger and acquisition (M&A) accounting, according to specialists. The US Accounting Standards Board recently announced that it would abolish the principle of 'pooling of interests' in relation to the accounting treatment of M&A deals in order to stop abuses. The IASB chairman, Sir David Tweedie, has recently announced his intentions to toughen up international standards dealing with business combinations. ☐*bfinance*

COMPANY LAW

Blueprint for reform

The long-awaited final report of the Independent Company Law Review recommends legislation to provide a statutory statement of directors' duties and a review of reporting practices. The report is likely to form the basis of a new Companies Act and represents a blueprint for comprehensive reform and modernisation of the law. But the review shies away from imposing legal obligations on finance directors for ensuring adequate corporate risk management.
www.dti.gov.uk/cld/review.htm ☐*bfinance*

UK/US TAX

New treaty slashes WHT on dividends

The replacement to the 1975 Double Taxation Convention has been signed by UK Chancellor Gordon Brown and US Treasury Secretary Paul O'Neill. It has all but abolished withholding taxes on payments between the two countries, a move that could not only lead to huge savings for British business, but also generate a surge in EU companies exploiting favourable UK conditions to build an investment platform in the US. This agreement brings the US/UK convention into line with alterations to both countries' taxation systems over the last 26 years. Termed a 'milestone' by UK officials, it applies in the UK to taxes on income and capital gains, as well as corporation and petrol taxes.

The new agreement also makes provision for double tax relief. If a US firm owns more than 10 per cent of a British company and is paid a dividend by it, then the treaty allows it to use the UK income tax paid on the profits of that subsidiary to offset their US income tax commitments.

Certain areas of the tax convention have been tightened up. Under the new agreement, dividends paid by 'pooled investment vehicles', entities whose assets exist mainly as shares, securities or currencies, are to be taxed at 15 per cent of the gross amount. ☐bfinance

CB COMMENTS: The new US/UK tax treaty is complex and there are different views as to how far reaching some of the anti-avoidance provisions in it will be. The only good news is that we may have up to April 2003 until it comes into full effect. We hope to provide a full review of the treaty in a future edition of *The Treasurer*. In the meantime the Inland Revenue document can be found at **www.inlandrevenue.gov.uk/pdfs/ukusa_dtconvention1.pdf.** ☐*CB*

FOREIGN EXCHANGE

Portal, portal – who is the fairest?

While the rest of us were on holiday, the online FX portals continued to do battle for the headlines.

Atriax opened for online dealing business for spot, outright forwards and FX swaps on 28 June, having taken nine months to gestate from its first web presence to an operational marketplace. Atriax supports 43 currencies and claims 67 member banks and 6000 registered members, but is tight lipped about actual usage. There are no connection or transaction fees for buy-side members who access Atriax via the internet (Atriax also offers four private network access options).

Atriax joins its main rivals FXall (which is also offering free pricing) and first comer Currenex. FXall has 15 banks currently offering liquidity and a further 35 signed up, while Currenex has 35 banks connected and trading and plenty more in the pipeline. Currenex, now in the eighth release of its service, is less coy than the others about active trading; some 35 major corporations are using the service on a regular basis, it claims. Although these three are the most visible, they are not the only FX market places. State Street's FX Exchange, and Centradia, a treasury and capital markets products portal in development by a consortium of five European banks, are also in contention. The Centradia partner banks are Banco Santander Central Hispano, Commerzbank, The Royal Bank of Scotland, Sanpaolo IMI and SG, and they plan to offer services, research, markets and news in local languages. Worth watching too is SunGard. The company is promoting its STNTreasury, an internet-based quote driven transaction network for FX, money markets and OTC derivatives, as an alternative to Atriax and FXall. ☐*AQ*

FOREIGN EXCHANGE

Straight through processing

As well as playing the numbers game on liquidity providers, content sources and users, the FX marketplaces are also competing fiercely in the provision of straight through processing (STP) capabilities, publishing application programming interfaces (API) and linking with different treasury and back office systems providers. Among the agreements so far announced are Principia Partners with FXall, Trema Transaction Hub with Currenex and FXall, and Simcorp with Currenex and FXall. Reuters Treasury Solutions has also announced an API to connect its automated dealing service to the multi-bank portals. Portability of data will, of course, be a requirement of online success. So the Twist initiative, in which Currenex, Shell and Wall Street Systems are key players, is an important development. Twist brings together treasury systems providers in an XML-based initiative aimed at creating a standard messaging environment. In turn, this work will be presented to the FpML FX Products Working Group, which is responsible for extending the product definition of the current FpML standard for FX instruments. ☐AQ

SYNDICATED LOANS

Uncertain outlook

As the outlook for the UK economy becomes increasingly uncertain, Europe's syndicated loan bankers are adopting a more cautious attitude towards lending to UK corporates. Banks are declining more invitations than in recent times, and lending decisions will be based on credit quality rather than relationship issues.

Loan pricing will go up for companies without a rock-solid trading position. Over the last month, the attitude of syndicated loan market bankers towards UK corporates has changed dramatically. The UK economic environment has definitely deteriorated and the market is becoming more wary, as the business of even banks' major clients appears less predictable.

Pricing throughout Europe has been steadily drifting upward for some time, in line with banks' overall focus on return on equity requirements. Damaged by a slew of bad loans emanating from the US, banks are scaling back loss lending to relationships where possible.

However, the decline in M&A and the need to meet budgets has prompted some banks to low-ball UK corporate pricing pitches, resulting in some aggressively priced but successful transactions. In addition, borrowers still able to play the relationship card have secured tightly priced refinancings, after promising concrete ancillary business.

Recent weeks have seen a major change in perception, however, as a number of these more aggressively priced facilities have started to struggle against the more pessimistic economic outlook. Corus's €2.4bn revolver was originally priced at 90bp over Euribor, but had to be flexed up to 110bp, and arrangers ABN AMRO Bank, CSFB and HSBC are still believed to have been left long.

"The Marconi and Invensys news will have given a wake-up call to banks active in the UK market, and could cause lenders to be more selective about the deals they support in the future," says Christopher Elliott, managing director, global head of syndications and agency at RBS.

Marconi's €3bn June financing had a fairly thin 40bp over Libor margin. Just weeks after signing, the company issued a profits warning and its standing has been deteriorating ever since. Many syndicate members are aggrieved that the facility did not include a ratings ratchet to protect them from credit deterioration.

Invensys, which signed its $1.5bn revolver earlier this month via arrangers Banc of America, Barclays, BNP Paribas and JP Morgan, has seen its trading figures hit by the global slowdown and issued a warning that first-half profits will be 30% lower than expected. While its deal does include a pricing ratchet, the arrangers had to work hard to place the paper with banks, many of which are not particularly happy now. □*IFR*

EUROBONDS

Market threatened

Senior figures in the Eurobond business fear that a hitherto unpublicised proposed directive from the European Commission could kill the market. A new series of highly bureaucratic rules would threaten to negate many of the flexible features underpinning the market's growth over the past four decades – confirming the worst fears about Brussels' true intentions.

After a meeting on 11 May of the Forum of European Securities Commissions (Fesco) – which groups most national securities regulators – publication of proposals from the Commission was widely expected around mid to late summer. The emergence of the draft directive now has surprised and worried many people involved in the market, while the apparent absence of any substantial period of consultation with the industry is baffling. "You can only design a workable plan in consultation with the industry . . . it can't be done in a vacuum", said an industry figure close to discussions with the EU Commission.

The Commission's apparent intentions were initially seen as healthy enough. They are based on guidelines drawn up by Fesco that allow a public offering to take place in a host state after a document approved in a home state is filed – without host state review and effectively with a translation only of the summary note.

However, subsequent developments have been described as "throwing the baby out with the bath water", while the draft has opted rather to "pick and choose" from Fesco's recommendations, according to another legal expert.

Among the EU Commission's proposals:

- Registration documents must be approved by the home regulator, thus a listing elsewhere would have to be 'passported' in. This would effectively emasculate London and Luxembourg as listing centres. On a debt issuance programme with issuers in several different jurisdictions, this would require approvals in each of the home states. There is, moreover, no provision for a situation where the guarantor is located in a different jurisdiction from the issuer.
- An issue document must be approved prior to any pre-marketing, and a grey market could result in a breach of this rule.
- Where there is admission to trading, three documents are required – a registration document, a securities note and a summary note. With substantial overlap between these documents, the process is likely to prove very long.
- Registration documents, or shelf-filing, would have to be updated annually.
- It would also appear that the competent authority would not have the power to waive a disclosure requirement where it was impossible, or inappropriate, to comply with. The lack of flexibility here would make life very difficult for a number of companies.
- Listing particulars are currently required where there is an official listing. The directive would alter this to require a document wherever securities are admitted to trading. This would result in the need to pre-vet documents where there is trading on AIM, the Neuer Markt or other junior markets. □*IFR*

(See also Chris Bates' article on page 40).

DERIVATIVES

Equity options on the up

Europe's two largest derivatives exchanges, LIFFE and Eurex, are both reporting increased success in diversifying from their core interest rate products into equity options. Both have recently enhanced their equity product ranges and plan to do more.

Despite competition for equity market share, derivatives users say that this is not a re-run of 'the battle of the Bund', where one exchange emerges as the dominant force. Both exchanges have room for further growth in equity derivatives.

LIFFE traded well over 99m contracts in the first half of 2001, up 47% on the same period last year. Its equity product volume rose 38%, with individual equity options up 79% year-to-date, setting an all-time open interest high of 1,515,428 in July. Eurex, meanwhile, recorded a record volume of 125m contracts in the first half of 2001, representing a 35% increase. Within that, its equity options volume increased by 50%.

In contrast, Eurex is concentrating on expanding its product line in equity derivatives for the Neuer Markt (the German stock market for newly listed companies). It has listed new stock options on Aixtron, Broadvision and Quiagen. There are now a total of eight Neuer Markt stock options on Eurex, as well as futures and options on the Neuer Markt index, the Nemax 50.

Approximately 4.3m contracts have been traded on those products this year, an average of 28,000 contracts per day. This represents an increase of over 150% on the daily average of contracts traded last year. ☐*IFR*

DEBT DEFAULTS

Credit insurance a must

UK banks are increasingly likely to demand that clients operating in beleaguered sectors, such as telecoms, take out credit insurance or protect themselves with derivative products when exporting to the US on open account terms, say trade finance specialists. The warning comes as figures released by Standard & Poor's show a significant increase in the number of corporate debt defaulters in the first half of 2001 – most of which are based in the US. The gloomy outlook has also been confirmed by a series of downgrades released by Moody's Investors Service, who reported that the credit quality of corporations and governments outside the US continued to decline sharply in the second quarter of this year, as rating downgrades outpaced upgrades by more than two-to-one. ☐*bfinance*

CREDIT SUPPORT

Protocol unveiled

The International Swaps and Derivatives Association (ISDA) has made a credit support protocol available on the internet. The protocol offers institutions the ability to amend their credit support documentation for existing transactions multilaterally, without having to renegotiate with each of their counterparties. Institutions can adhere to the protocol until 28 February 2002. It is open to non-members of ISDA, as well as to members.

The protocol approach, which was successfully utilised for the EMU launch and the Greek drachma disappearance, allows an institution to sign an adherence letter to indicate which annexes it wants to agree to in order to amend its master agreement.

All adherence letters are submitted to ISDA. The trade group then posts the adherence letters on its website so counterparties can determine which institutions have agreed to which amendments to their master agreements. The amendment becomes effective on the date an institution submits its adherence letter. ☐*IFR*

In brief...

Trezone is a web-based system from Finnish company Exidio that automates many of the routine tasks of treasury, integrating the treasury management system with financial, ERP and legacy systems and speeding information flow through the business. Now Exidio has established a UK subsidiary to serve the UK and Ireland. **www.exidio.com** ☐*AQ*

New online is **SecFinex**, an independent marketplace for stocklenders and borrowers where participants can anonymously post, negotiate and agree stock loans and borrows, as well as streamlining associated business processes. **www.secfinex.com** ☐*AQ*

Consignia, better known as The Post Office, is to offer an EBPP (Electronic Bills Presentment and Payment) service. The new service, to be called Bills Online, will present bills on a secure website for customers to view and pay from their PC. Billing companies (such as utility companies) will pay a per bill fee for the service, which will be free to customers. A variety of payment options will be available, including an autopay facility and payment diary. **www.consignia.com**. ☐*AQ*

The clearing up after the dotcom party continues. After the ASB, the **IASB** has signalled its intention to look at how companies account for share based payments to employees and others. Under discussion: should the accounting treatment of share based payment transactions result in an expense in the income statement? If so, how should it be measured? **www.iasb.org.uk** ☐*AQ*

StarterPak, a new service introduced by beTRUSTed, the e-security business of PricewaterhouseCoopers, promises to give banks fast and cost-effective entry and accreditation to the Identrus global internet trust system for business-to-business payments and transactions. The new system should make it cheaper and easier for smaller banks and their corporate customers to use Identrus security technology. ☐*bfinance*

The **Insolvency White Paper** published recently by the government (**www.insolvency.gov.uk/compwp.htm**) has received a mixed blessing from bankers and insolvency professionals. Part of Chancellor Gordon Brown's drive for small-business innovation and growth, it proposes a series of measures intended to remove the social and financial stigma that still cling to bankruptcy, including the scrapping of the Crown prerogative and imposing tight restrictions on the right of single creditors to place a firm into administrative receivership. ☐*bfinance*

The EuroFinance 10th **Annual Cash and Treasury Management conference**, in association with ASSET (the ACT's Spanish counterpart), will take place in Madrid from 19th-21st September. For the first time, the conference will run in conjunction with a two-day event on e-Enabling your business. **www.eurofinance-madridonline.com** ☐

The **French tax authorities** have issued a reminder that tax returns must be filed in euro next year. France is the only country where this is the case. Elsewhere, they can be filed in the legacy currency if the 2001 accounts were kept in the legacy currency. The French tax authorities have also reiterated the rules they are applying to retroactive conversion of accounts after the start of a company's financial year. **www.euro.fee.be** ☐

RATINGS

Corporate winners

Following months of rumours that Standard & Poor's is in the process of revising its take on the relationship between corporate and sovereign ratings, the agency made a typically understated announcement on 26 July, hinting that a growing number of private-sector issuers will be allowed to pierce the sovereign ceiling.

This shift comes in the wake of Moody's review of 38 emerging markets corporate issuers for possible upgrade based on a reduction in the perceived risk of transfer and convertibility controls in the case of a sovereign default. A clear winner is emerging from this game of ratings brinkmanship: the corporate borrower. ☐*IFR*

US ACCOUNTING

New power purchase rules

The rules governing accounting for power purchases under FAS 133 in the US has changed again. Following lobbying by the power industry and the loss of a member of the Financial Accounting Standards Board (FASB), who had been a proponent of power purchases being accounted for as derivatives, the FASB passed a measure saying that power purchases can qualify as normal purchase and sales agreements rather than options. As such, they do not have to undergo the FAS 133 derivatives accounting regimen.

On the surface, the FASB's move appeared to be inconsistent with what the board has said in the past about all options having to be stripped out and marked to market, but inconsistency is the appeal of the normal purchase and sales exemption.

Any energy forward can meet the definition of a derivative, but it can also be viewed as a normal purchase and sales agreement, said Mike Joseph, a partner at Ernst & Young in New York. In the past, the Derivatives Implementation Group (DIG), which advises the FASB on derivatives issues, has stated that an option cannot be a normal purchase and sales agreement, he added. ☐*IFR*

BANK RATINGS

Bulge-bracket balancing act

Standard & Poor's has revised the ratings outlook for Morgan Stanley, Goldman Sachs and Merrill Lynch to negative from stable. The rationale behind S&P's action was the perception that there was increasing pressure being exerted to participate in low-profit business in order to secure fees from their preferred products.

S&P's report stated that generally it is now necessary for them to offer services in senior bank loans, and even CP back-up lines "to earn the right to play in their traditional intermediation markets; in these instances, they become not merely intermediators of credit, but must actually rent their own balance sheet".

Bank consolidation has gathered pace over the past few years, both in Europe and the US. The other universal truth is that the whole has added up to far less than the sum of the constituent parts, where resulting credit lines are concerned.

This represents a double-edged sword for the investment banks. Faced with fewer opportunities to fund their day-to-day requirements, borrowers have become increasingly dependent on alternative sources. This has not necessarily been news that the investment bankers wished to hear.

Overall volume of fee-based business is falling. The number of commercial banks available to pick up the 'bread and butter' business of mundane funding needs is also in decline. There is pressure on the investment banks to offer an all-round service as never before. Revelations of disappointing earnings from the investment banking fraternity have reflected both a slow-down in the flow of business and a compression of margins. ☐*IFR*

SWAPS

European sovereigns line up

France and Germany are preparing to join Italy in using interest rate swaps to manage their debt. Swaps can be used to adjust debt duration and reduce interest rate costs, but government trading of over-the-counter derivatives could distort spreads and tempt banks to front-run sovereign positions. The US and UK say they have no plans to use swaps to manage domestic debt. Italy has been using interest rate swaps to manage its €1.16trn national debt for some years, while France and Germany are poised to begin using the derivatives in the fourth quarter of this year.

France could use as much as €150bn in swaps over the next couple of years, according to an official at the French debt management agency. France has €644.8bn of debt outstanding, with an average maturity of six years and 73 days.

Germany will be taking the same approach with its €587.1bn of federal debt, by writing swaps with only primary dealers of Bunds. This could give a euro swap trading advantage to banks that are dealers of government debt in the two countries.

Germany experimented with the use of swaps three years ago, before the project was put on the back burner within the Ministry of Finance. Now it is being revived, though trading is unlikely to start before the fourth quarter, according to a Ministry official. Parliamentary approval is needed for an increase in the size of the swap programme from the limited €10.25bn that is currently authorised. ☐*IFR*

SOURCES	bfinance	www.bfinance.co.uk	bfinance.co.uk
	IFR	These extracts are from IFR (International Financing Review). For further details, please contact Ann Gordon: T | 020 7369 7521 F | 020 7369 7330 E | ann.gordon@tfeurope.com	IFR
	AQ	Anne Querée is freelance journalist who contributes regularly to *The Treasurer* and monitors IT & e-commerce news.	
	CB	Caroline Bradley is Technical Officer, Association of Corporate Treasurers.	

PERCENTAGES...

The Treasurer takes its pick from the abundance of surveys

TECHNOPHOBIA. Treasurers of the top 500 companies in Europe still have no choice but to stick to traditional means of communication and dealing systems over more advanced technology, according to a survey conducted by Exidio, the treasury technology and software supplier. The report, based on interviews with 104 group treasurers, treasury managers, CFOs and finance directors from the top 500 European multinationals, reflected a failure of treasuries to use the most up-to-date technology when communicating and conducting transactions internally. The report also outlines the changing role of treasury, which has evolved from being a money making centre to becoming a service provider and payment factory. **www.exidio.com** ☐*bfinance*

CREDIT RISK - BASEL INADEQUACY. UK banks are lagging behind their overseas counterparts in adjusting their risk management techniques for the new Basel Accord on capital adequacy, according to a new survey by consultants KPMG. Based on responses from 154 institutions in thirteen countries, KPMG's research found that 63% of respondent banks in the UK had started projects to address credit risk issues and 50% had initiated new operational risk measures compared with 100% of respondents in some European countries. This puts the UK sixth out of seven in the European league table of preparations for credit risk and fifth out of seven for operational risk. ☐*bfinance*

CASH QUESTIONS. The Association of Corporate Treasurers is currently running a cash management survey which is open to all members of the Association and its sister bodies within IGTA. The survey can be accessed at **www.treasurers.org/cashsurvey.** Respondents can win one of two prizes, a weekend in London or a weekend's golf in La Manga, or opt for a charitable donation. ☐

LETTER

The future of the treasurer

In your leader column 'Time to ACT' (*The Treasurer*, July/August 2001), you raise fundamental issues about the future of the association and ultimately about our roles and careers.

For many of us, this debate needs to be set in the context of supply and demand. Neither the leader, nor the spotlight on Careers has set any quantitative or qualitative analysis of such supply or demand, and so many members like myself are in danger of misinterpreting the situation (see my analysis below). And yet I would be surprised if much of this information is not readily available in the Association.

On the demand side, looking at corporate treasury roles in the UK, it would not be too difficult to make some assumptions on the number of UK companies with treasuries (say 500) and the average size of a treasury department (say three) = 1500. On average the size of a treasury department is likely to be static over the next 10 years, if not decline with pressure on head office costs, and the opportunities to outsource or enhance corporate STP.

On the supply side, we have a membership of say 3000, (which covers a whole range of professions) plus 1000 students, and so it would be difficult to for many potential entrants to justify entry/study, unless a significant number of members are about to retire or move out of treasury. As I understand it, the major expansion of membership over the last few years seems to relate to cash management – with the banks sending their staff. Unless the non-educational aspects of the Association are adjusted to meet their needs then they are unlikely to participate further in developing the Association.

Ultimately if it wishes to grow and draw in new blood, the Association must broaden its appeal to cover all sorts of finance professionals. It's simply a question of supply and demand. ☐

ANDREW GRANT DUFF, FCT
Deloitte & Touche

LETTER

Ratings not rated

Ratings agencies – whether they are the big players such as Standard & Poor's or Moody's or smaller ones such as Dun & Bradstreet have an enviable position.

Solicited or unsolicited they are paid to evaluate, in their opinion, the credit worthiness of a company.

Although their ratings are held in high repute and in many cases can affect business relationships and investment, they bear little responsibility for the results of their output.

Take the recent demise of Independent Insurance Company. Six months ago it was well regarded for its management team, its growth and its positioning. It boasted an 'A' credit rating. Today it languishes in administration – causing hardship for the wide range of individuals and institutions who relied on its insurance policies.

Where were the rating agencies when the French regulators highlighted their concerns? To what extent did the rating review 'kick the tyres' or did it simply rely on the information publicly available?

As the events at Independent unfold it is clear that there were many signs that something was amiss. The ratings agencies can be accused of either not having sufficient resources to conduct a proper review or of complacency in their reliance on public information.

When will the ratings agencies be held to account? ☐

GROUP TREASURER, *unlisted corporate. Name and address supplied.*

The editor welcomes letters on any aspect of treasury. Please email **mhenigan@treasurers.co.uk**. Confidentiality is assured.

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