OBITUARY

## Sir Dennis Weatherstone KBE

Sir Dennis Weatherstone, past chairman and CEO of JPMorgan, who died in June 2008, aged 77, was said by The New York Times to have "helped usher in a new era of banking during the early 1990s", *writes Richard Raeburn, chief executive of the ACT.*

He played a key part in the creation and explosive growth both of what was known at the time as the Euromarket and of the creation and use of derivatives. It established London as a pre-eminent centre for international finance, without which the City – and Canary Wharf, in particular – would be very different today.

Sir Dennis was an honorary fellow of the ACT and maintained a relationship with us from our formation.

Born in London, he joined the Guaranty Trust Company of New York's London office as a clerk in 1946. Guaranty Trust was acquired by JPMorgan in 1959 to form Morgan Guaranty Trust. He became a vice president in 1965 and transferred to New York in 1971 as head of the foreign exchange and international treasurer department. Appointed chairman of Morgan Guaranty's executive committee in 1980, Sir Dennis became president in 1987 and group chairman and chief executive in 1990. His rise to the top of a US bank was all the more remarkable given his modest social and educational background.

Sir Dennis oversaw the transformation of Morgan Guaranty into a diversified global bank. He obtained permission for Morgan Guaranty to act as underwriter and trader in securities in 1990 – the first, crucial, breach in Glass-Steagall, nine years before the repeal of the Act.

A leading innovator, he was nevertheless renowned for his careful approach to risk and new instruments or trading strategies: "They can have three goes at explaining it. If I don't understand it by then, we don't do it."

Last November, Sir Dennis contacted the ACT for a copy of an article he wrote for the March/April 1981 issue of The Treasurer, which dealt with international markets just 15 months after UK exchange controls were lifted. He wrote: "As corporate treasurers you live with the perennial challenge of supplying the working capital and the term capital that your companies require to operate and grow." The article (**www.treasurers.org/node/3917**) confirmed the intelligent, insightful approach that characterised his whole life.

# Administration numbers grow as firms struggle

One year on, and the impact of the credit crunch has extended beyond the financial sector, new data from the Insolvency Service shows.

Winfield: refinancing tough except for strongest credits

Baird: prepare for a crunch in the consumer industries

The government agency recorded 3,560 corporate insolvencies in England and Wales in the second quarter of 2008, an 11.6% increase on the first quarter and a 15% year-on-year rise.

The number of companies in administration over the same period was 938, up 9% on the previous quarter and 60% more than the 585 for Q2 last year. Administration typically involves larger corporate entities, whereas many liquidations are for sole traders.

David Winfield, head of the banking practice at law firm Freshfields Bruckhaus Deringer, said those corporates fortunate or farsighted enough to refinance in the first half of 2007 had positioned themselves better to withstand the worst of the credit crunch.

"Mid-sized corporates, and in particular those in the worst-affected sectors that are forced to refinance in the markets, face a challenge," Winfield said. "Refinancing now is tough except for the very strongest credits."

Margins on some new corporate deals can now be twice as much as borrowers were paying before the crunch. And where corporates need to renegotiate covenants, banks are claiming high waiver fees to reflect market conditions.

Ken Baird, Freshfields' head of restructuring and insolvency, expects the rest of the year to see depressed consumer confidence fuel a "consumer industries crunch" that affects companies in the retail and leisure sectors that are vulnerable to fluctuations in discretionary customer spend. ■

# Banks told to look at Web 2.0

Banks are considering moving their corporate and individual customers to a Web 2.0 environment, according to a consultant's report.

The report, from banking consultancy Celent, concluded that a handful of early movers were showing signs of moving customers to a Web 2.0-centric environment, and that this trend would accelerate considerably over the next 12-18 months.

Celent predicted that the online banking industry would migrate to a Web 2.0 business model over the next three years, allowing the banking industry to meet the needs of business customers better.

David Lavenda, vice president of marketing and product strategy at Web 2.0 consultancy WorkLight, said: "As banks and financial institutions seek to differentiate their online banking offerings, we are seeing Web 2.0 technologies making a real impact on how these typically traditional organisations can do business."

WorkLight said there was a greater pressure on banks to explore new business models that could meet evolving customer demands and requirements.

In the world of Web 2.0 this means being able to use diverse tools such as personalised homepages, social networks and RSS feeds. Embracing such technology should give financial services firms a significant advantage, as long as they meet strict corporate security and governance requirements.

Lavenda said: "While business banking online services provide a raft of services, they look and feel out of date, and are not what today's customers are really after in the Web 2.0-driven e-business world." ■

# Crunch takes large bite out of M&A volumes

Merger and acquisition deals on both sides of the Atlantic in the first half of 2008 show a sharp decline on a year ago, figures from investment bank Robert W Baird suggest.

Smaller deals – in the $100m to $500m range – were down 34% to a total of $65.5bn in the US and down 28% to $73bn in continental Europe.

Upper mid-cap deals of between $500m and $1bn showed a 32% year-on-year decline to $58.8bn in the US, and slumped by 43% to $54.9bn in Europe.

In the UK, upper mid-cap deals showed an even greater slump of 62% over the first half of 2007 to just $13.bn. The UK decline in mid-caps was similar to Europe's.

In all three markets, the $100m to $500m sector saw a greater completed deal value than did the $500m to $1bn sector.

Baird said that, particularly in Europe, this was partly due to strategic acquisitions including add-ons in the energy and infrastructure sectors, which have done well thanks to high demand.

"With private equity largely halted and plenty of large companies in these sectors, it has been seen as a time to acquire," the bank said.

It also found that cash represented a greater proportion of deal value in Europe than ever before, up 5% on a year earlier to 78%. This reflected the number of large strategic acquirers still able to afford cash acquisitions.

Baird added that both EBITDA multiples and premiums on listed acquisitions showed slightly higher valuations on acquired companies in the US than in Europe.

But over the past year, acquisition premiums in both the US and Europe were sharply higher than in 2007 as a whole, indicating that companies targeting specific acquisitions are ready to pay and that auctions are still taking place.

Around half of these acquisitions are not disclosed, the bank said. Undisclosed deals show a more modest year-on-year decline in all three markets: 22% in the UK, 20% in Europe and only 16% in the US. ■

## ACT improves education programme

As part of ACT's programme to develop and improve the AMCT Diploma in Treasury, the syllabus and study method for the Corporate Finance & Funding paper is changing. It will continue to form part of the AMCT qualification but will also be available as a standalone certificate – the CertCFF – from October and delivered via an online study programme. For further information, visit **www.treasurers.org/certcff** ■

# On the move...

- **Steve Baseby**, MCT, has been appointed deputy treasurer at Severn Trent. He was most recently working as an independent treasury consultant.
- **Terry Bird**, FCT, previously interim treasury operations manager at Easyjet, has been appointed interim manager at Tesco, and has also started his own company Corporate Treasury Services.
- **Paul Garvey**, MCT, previously at GMAC-RFC, has been appointed treasury manager at Hutchison 3G UK.
- **James Horsburgh**, AMCT, has joined as director in HSBC's leveraged and acquisition finance team. He previously worked at Lloyds as a director in the loan syndications group.

### 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.*

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## Getting paid for doing nothing

**Tim J Kirkham**

Summer saw London's Oxford Street heaving with continental European shoppers exercising their rational response to sterling's 20% depreciation against the euro.

You might think, that on the other side of this volatile euro/sterling divide, sterling-based treasurers were actively taking rational decisions to accommodate their future euro requirements.

Well, no, actually. Whether as an act of omission, desperation or rationality, some risk managers have been doing nothing – waiting for a better rate to come along.

They have taken the view that not taking a decision is also a decision. They have been sitting on their hands hoping the stock market understands why their balance sheets will have to take a currency hit – while hoping it won't happen.

But bankers say risk managers are missing an opportunity. As in war, market turmoil has triggered explosive innovation. The sterling/euro rate falling out of the tight range it has occupied for years has sparked the development of more outperformance products in sterling/euro than have appeared in the past decade.

By deferring a hedge, risk managers are "selling" an option. But they are paid no premium for assuming the risk of buying the euros they need at an unknown rate at some future date.

But increased volatility now places a real value on that option. Banks will pay risk managers a premium to assume the currency risk. Alternatively, banks can offer risk managers outperformance structures that give treasurers the rate they require immediately, while limiting their risk exposure.

At worst, if markets move against them, to the extent that the outperformance strategy fails, the risk manager will be no worse off. At best, both approaches will deliver the targeted rate. And that still beats sitting on your hands – and the time saved explaining could be spent shopping.

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

FORTIS

# Procurement managers say bigger is better

Just over half of private sector companies regard smaller suppliers as less competitive than their larger rivals, research carried out by telecoms companies BT Business and Cisco suggests.

Just as many (52%) said that large businesses were making more demands on their suppliers than a year ago.

The survey of procurement managers, which was conducted to discover the factors that determine a major company's choice of supplier, also found that 40% were less likely to choose a smaller supplier in a period of economic downturn, while 42% believe that bigger enterprises are the safer long-term option.

A similar number suggested that smaller firms were less creative, although 72% said they were able to deliver a more personalised service than the bigger suppliers could.

While as many as 87% of procurement managers said that small firms were more likely to offer the personal chemistry for a strong supplier relationship, 57% thought that SMEs were unlikely to provide 24-hour support, and 52% believed their rates to be less competitive.

Four in 10 of the procurement managers questioned said their choice of supplier was determined by whether the supplier outsourced any of their business. Just over a quarter expressed a preference for companies that kept everything in-house and a similar number said they would be concerned if their supplier outsourced the customer service function.

The survey found that the average UK procurement manager spent £28m a year on suppliers, of which 23% (£6.6m) went to small and medium-sized enterprises (SMEs).

More worryingly, 48% said that they had extended their payment periods or were considering doing so because of the credit crunch. Despite this, 24% of respondents admitted that large companies had a duty to consider the impact that less favourable terms would have on suppliers.

John Dunsmure, managing director of the British Chambers of Commerce, called the findings "extremely worrying for UK businesses and especially startups."

# Paternoster sounds the alarm over cash inducements for pension scheme members

Pensions buy-out company Paternoster has expressed concern that the use of cash inducements by companies to incentivise defined benefit pension scheme members to transfer out of corporate pension schemes will lead to a significant loss of pension entitlement.

**Wood: several serious issues arising**

Paternoster called for the regulators to impose a clear framework for companies offering cash inducements to scheme members transferring out of a scheme. The company is lobbying for the introduction of guidelines to ensure individuals can clearly identify the pension benefits they give up on leaving a pension scheme and are able to evaluate this loss of benefit against the cash and transfer value being accepted.

Mark Wood, chief executive of Paternoster, said: "We see several serious issues arising from the use of cash to persuade defined benefit pension scheme members to give up their scheme benefits, including:

- "Transfer values do not generally pass on the full economic value of the fund due to an individual. While this has some justification when an individual requests a transfer from a fund, soliciting an individual to transfer out at significantly less than the full economic value is unfair.
- "Cash paid by the sponsoring employer to individuals to encourage them to accept a transfer value significantly below full economic value distracts them from the true equivalent value of the benefit lost.
- "The calculation of the full economic value, the resultant pension, the value of protection against future inflation, the value of protection against future uncertain investment returns and the value of protection against future improvements in life expectancy is complex. Pension scheme trustees engage professionals to value the liabilities of a pension scheme to enable the trustees to establish the level of assets needed to provide these benefits. These calculations are time-consuming and costly and as a result most schemes only do them every three years. An individual cannot be expected to undertake a similar calculation on their own."

Paternoster recommended that a clear statement of benefits lost on transferring out of a pension scheme should be given to individuals. The statement of benefits lost would need to include the following:

- the current total asset share of the individual;
- the value of monies to be transferred to the individual on a transfer out;
- the projected pension expected to be paid to that individual on retirement, taking into account future salary escalations and anticipated inflation;
- the investment yield necessary from the value transferred out of the pension to generate a similar pension;
- a comparison between that investment yield and the current risk-free rate; and
- an explanation as to why a cash incentive is being provided.

Wood concluded: "Defined benefit pension schemes are designed to pay pensions. Specific regulation of the transfer value process is required now to protect tomorrow's pensions." ■

## Sponsors and trustees warned over 'elephant traps'

Pension scheme sponsors and trustees have been warned about 'elephant traps' when seeking to de-risk their schemes. The dangers include paying too much for risk reduction, remaining overexposed to future risks, missing opportunities in the market, and failing to vet providers adequately. The warning comes from Mercer at a time of volatility in investment markets and continuing change in the line-up of providers bidding to take on pension risk from schemes.

**See Something of the Spotlight, page 39**