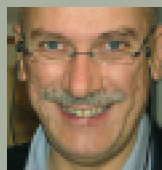
Lack of user input raises SEPA Direct Debit flop fears



Corporate treasurers and other end-users of payment systems in Europe are worried that the new Single Euro Payments Area (SEPA) Direct Debit will prove unpopular unless more is done to reflect user needs.

The Payment Systems End User Committee (EUC), a user group whose members include the European Association of Corporate Treasurers, said that SEPA could improve the efficiency and competitiveness of electronic payments across Europe. And SEPA Direct Debit, which will introduce a new cross-border payment method from November, could be of particular benefit.

However, it pointed out that at present companies can arrange to access domestic direct debits country by country, so a precondition for switching to SEPA Direct Debit must be that it is at least as good as existing schemes. This is not yet the case.

"A year and a half after the launch of the first SEPA product, less than 2% of credit transfers are made using the new system," said Olivier Brissaud (pictured above), the EUC's representative in the SEPA process. "SEPA Direct Debit risks a similar fate unless corrective action is taken before its launch."

The EUC said the European Payment Council's (CMF) current proposed direct debit scheme offered fewer services than existing national schemes, providing little incentive to switch to it. The EUC proposes instead a CMF+ scheme offering a basic service coupled with optional extras that would prove more attractive.

A second proposal is to improve the governance of SEPA and its structure, with end-users as involved as payment systems providers and regulators.

"SEPA cannot achieve its goals unless those who will use it are fully involved in its construction," said the EUC.

It added that end dates for migrating national systems to SEPA was "not absolutely necessary or desirable at the present time", and that a decision on end dates should be taken only when all remaining areas of dispute had been satisfactorily resolved. "Setting arbitrary end dates by legislation would result in a failure of SEPA," it concluded.

Pension risks left hanging

FTSE 100 companies are paying insufficient attention to their pension risk, according to actuary Lane Clark & Peacock.

In its annual pensions survey the firm found that while 46 FTSE 100 companies identified pensions as a key risk to their business, only 17 set out a policy in their report and accounts for dealing with the risk. Lane Clark & Peacock said this was different to the approach taken by all FTSE 100 companies to their other financial risks, such as changing fuel prices or foreign exchange, where there is fuller disclosure on risk management.

Lehman: Collapse hit FTSE 100 schemes hard

The survey suggested that the financial crisis has plunged FTSE 100 companies' UK pension schemes into a £96bn deficit, more than double the £41bn estimated in 2008. The deficit, which is calculated using data from mid-July 2009, is the largest recorded shortfall recorded under the IAS 19 accounting standard.

Lane Clark & Peacock partner Bob Scott said: "The collapse of Lehman Brothers in September 2008 had a significant impact on the UK pension schemes of FTSE 100 companies. Assets values fell sharply yet, paradoxically, the effect did not show up immediately in company accounts as corporate bond yields rose and inflation expectations fell.

"However, since March this year, deficits have ballooned as aggressive cuts in interest rates and quantitative easing have caused these factors to go into reverse."

More trouble is predicted for the corporate reporting of pensions if the proposals on pension accounting put forward by the International Accounting Standards Board (IASB) are introduced; the changes would put pension-related losses and gains on company income statements.

Lane Clark & Peacock said that if those rules had been in force at the end of 2008, then the aggregate reported profits for the FTSE 100 companies with December year-ends would have been slashed by 70%, from £46bn to £13bn, almost entirely as a result of falling equity markets.

See Ask the Experts, p12

Warning on Islamic bond defaults

A default on Islamic bonds by Kuwati firm Investment Dar could be the first of many as the feebleness of the global economy hits issuers, delegates at a recent Islamic banking conference in the Malaysian capital of Kuala Lumpur were warned.

Investment Dar announced in May that it had defaulted on a $100m Islamic bond, a first for a major public Islamic instrument in the Gulf. Meanwhile two Saudi conglomerates, Saad Group and Ahmad Hamad Algosaibi & Bros, have been restructuring their debt.

According to Neale Downes, a Bahrain-based lawyer at Trowers & Hamlins, between 5% and 8% of Islamic bonds, or sukuk, in the market are vulnerable to defaults, as they were raised for real-estate projects that have been hit by the downturn.

"A lot of the issuers are ultimately really sovereign or quasi-sovereign, so they will probably be able to draw on government support either directly or behind the scenes," he said

The value of sukuk issued in 2008 fell to $14.9bn, a decrease of more than 56% from 2007, according to ratings agency Standard & Poor's. S&P expects the market to recover in the second half of this year, or in early 2010.

ACCA welcomes EU move to global audit standards

The Association of Chartered Certified Accountants (ACCA) has welcomed the European Commission's proposed adoption of international standards on auditing (ISAs).

The accountants body gave its positive response ahead of the 15 September deadline for the consultation period, during which the views of auditors, preparers, users and public authorities have been sought. ACCA supports the adoption of ISAs for all statutory audits, including those of small companies.

York: consistent approach

"Modernising auditing standards will be beneficial to the auditing profession because it will mean a consistency of approach across the EU," said David York, head of auditing practice at ACCA.

"We welcome the rigour of the European Commission's consultation," he added. "It presents the European Commission's case for believing that the standards do meet the criteria to be recognised in EU law: that they have been developed with proper due process, public oversight and transparency, and are generally accepted internationally, that they contribute a high level of credibility and quality to the annual or consolidated accounts, and most important of all, that they are conducive to the European public good."

On the move...

- **Sheila Codamus-Platel**, AMCT, previously senior manager at AERCAP, has joined Dutch bank FMO as treasury officer.
- **Louis Dirker**, AMCT, previously in securitisation at Standard Bank South Africa, has joined Sasfin Bank as group treasurer.
- **Paul Fletcher**, MCT, previously financial controller of Cargill's Asian energy trading businesses, has been appointed Bunge Europe controller.
- **Gevorg Ghahramanian**, AMCT, has left his position as finance and control manager at Nestlé and joined Japan Tobacco International as treasury analysis and reporting director.
- **Joanna Hawkes**, MCT, has joined Misys as group treasurer. She was previously treasurer at Angel Trains International.
- **Rajesh Joshi**, AMCT, previously director and corporate treasurer at 3Com Europe, has been appointed European treasurer at Eisai Europe.
- **James Koh**, MCT, has been treasurer for Eurocastle/Fortress Investment Group since November 2008. He was previously corporate treasury director at Cendant Corporation.
- **Trevor Mant**, MCT, will be retiring as group treasurer of Segro on 31 December. He will be replaced by **Andrew Pilsworth**, MCT, who is currently deputy treasurer of Alliance Boots.
- **Ernest Osafo**, AMCT, previously treasury and planning manager at Presentation Housing Group, has joined the Hyde Group as treasury manager.
- **Garry Porter**, AMCT, has been appointed finance manager at Visa Europe. He was previously senior treasury accountant for GlaxoSmithKline.
- **Richard Purvis**, AMCT, has been appointed group procurement financial controller at Premier Foods. He had been a business analyst at Tesco.
- **Keith Reed**, MCT, has been appointed group treasurer of Orient-Express Hotels. He was previously treasurer at InterContinental Hotels.
- **George Renouf**, MCT, has left Cornelian Asset Managers, where he was senior investment manager, to be director of investment strategy at Alliance Trust.

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Annuity market continues to fall

The insured bulk annuity market for defined benefit pension schemes has fallen heavily again, with a 32% reduction in the value of deals done in the second three months of 2009 compared with the previous quarter, according to research from Aon Consulting.

The figure reflects a dearth of very large schemes transacting, although there is still activity among smaller schemes.

The value of business placed in the second quarter of 2009 was £607m (compared with £888m in Q1), down for the fourth quarter running. However, the number of cases placed was little changed at 40, compared with 44 in the previous quarter. The largest case in the public domain during Q2 2009 was the second tranche of Dairy Crest pensioners at £170m – small compared with some of the mega-deals of 2008.

But the market remains competitive, with seven insurers writing business in the quarter.

Paul Belok, principal and actuary at Aon Consulting, said: "Larger deals are under serious consideration and could well conclude prior to year-end, which suggests the market could be close to picking up once again."

Aon Consulting said that a number of schemes would start to reconsider the market, particularly in relation to pensioner buy-ins, driven by a number of factors, including: early signs of stabilisation in investment markets; a continuing opportunity to secure pensioner liabilities at close to (or below) the funding reserve; increased focus on developing a roadmap to scheme closure, incorporating phased bulk annuity purchases; and a pick-up in M&A activity where there is a need to "tidy up" the related pension obligations.

Belok: Market close to picking up again

Audit committees reassess plans and processes

The economic downturn has triggered a rethink among UK audit committee members of many fundamental processes, including the external audit itself, according to KPMG's Audit Committee Institute.

The group commissioned a survey of more than 1,000 audit committee members in 25 countries, including 123 in the UK, between December 2008 and last April. It found that the downturn had caused 66% of UK respondents to reassess their company's external audit plans and 71% to reassess internal audit plans.

More than eight in 10 (82%) said that the recession had triggered a reappraisal of the adequacy and effectiveness of their corporate governance processes for managing risk. And 85% said that the downturn had resulted in the audit committee having more involvement with management.

Tim Copnell (pictured above), director of KPMG's Audit Committee Institute in the UK, said: "There is no doubt that audit committees, like company boards themselves, have been feeling the pressure of the extreme economic conditions of the past year.

"No company can afford to be complacent, and as every company operates within a web of relationships and contracts, risks and vulnerabilities could come from almost any angle.

"That is why committees have been, in some cases, fundamentally reappraising aspects of the internal and external audit."

The research also found that 86% of audit committee members believed that the recession had increased the risk of earnings management and other misconduct. However, they also felt that fraud risk and IT risk were the issues that committees were least effective at overseeing.

Finding sufficient time to fulfil their duties was a common complaint of respondents. Most committees met five times or fewer last year and 59% spent up to 50 hours dealing with issues.

Diversity also proved in short supply: 79% of respondents said their audit committee had no women and 82% reported no members from a minority background.

MMF revamp dumps higher-risk funds

The European Fund and Asset Management Association (EFAMA) and the Institutional Money Market Funds Association (IMMFA) are attempting to bring some clarity to the money market fund (MMF) label by laying down clear-cut rules on what constitutes an MMF.

The MMF term currently embraces a range of investment vehicles with differing degrees of liquidity and risk characteristics. The associations have joined together in agreeing two types of MMF: short term and regular.

After a transition period running to June 2012, any MMFs – also known as enhanced yield funds – that don't meet the EFAMA/IMMFA specified criteria should not use the label money market fund.

The two new MMF types make a distinction between weighted average maturity (WAM, which refers to the maturity of the interest rate reset periods) and weighted average life (WAL, which is calculated from the final repayment date of the instrument).

A short-term MMF must have a portfolio WAM with a term of under 60 days and a maximum reset period for any individual instrument of 367 days. The WAL must be under six months and any individual asset must have a final maturity of under two years.

In addition a short-term MMF must meet liquidity standards, holding at least 5% of its assets in instruments accessible within a day, and 20% in instruments accessible within a week.

The ACT said it deprecated the use of the term money market fund to describe higher-risk funds and welcomed the attempt to restrict the use of the term. All IMMFA funds will fit in the short-term MMF classification.

IMMFA chairman Travis Barker said: "It is crucial that investors understand the nature of their investment. The new definitions will help us clear up any investor confusion or uncertainty."

Meanwhile the US financial regulator the SEC is consulting on proposals to tighten the criteria for rule 2a-7 funds in the US. Rule 2a-7 currently does not limit the ability of an MMF to hold or acquire illiquid assets. The SEC's proposed amendments would require a retail fund to hold 5% of assets with daily liquidity and 15% with weekly liquidity. A wholesale fund would have limits at double these percentages. The WAM limits for MMF portfolios would go from 90 days to 60.

The MMF specification is at www.efama.org

Barker: Helps clear up investor confusion

Companies reinforce supply chains

Nearly three-quarters (74%) of businesses are taking a hands-on approach to managing supply chain risks, according to the 2009 Risk in 21st Century Supply Chains survey.

The survey, from risk adviser Aon and strategic business partner State of Flux, found that harsher economic conditions had led to a more stringent assessment of risk in corporate supply chains and business continuity plans. Key findings included:

- 53% of businesses had set up regular communications and audit policies with suppliers;
- 15% more companies were actively managing the risks around contracts to ensure they were covered from the negotiation phase by spelling out quality controls and contingencies;
- 20% more companies were investigating their suppliers to assess the strength of the supply chain;
- 20% fewer companies were using insurance as the only way to mitigate risks; and
- one in 10 firms were focusing on the ethical issues they were being exposed to by their suppliers.