Agenda

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{ ACT NEWS }

ACT IS AWARDED CHARTERED STATUS

The ACT has been awarded the Order of Grant of Royal Charter by Her Majesty the Queen and will become a chartered body with effect from 1 January 2013.

Chartered status, which is normally reserved for bodies that work in the public interest, is recognition that members of the ACT meet the highest level of standards, professionalism and expertise in their field. It also requires members to undertake continuing professional development. Accountants, engineers and physiotherapists are among the other UK professions with chartered bodies.

"This is a proud moment for the ACT," said ACT CEO Colin Tyler. "It underlines our commitment to supporting the treasury community and raises the profile of the profession. It also reaffirms our position as a leading treasury body and the authentic voice of treasury." The charter will reinforce both the ACT's public standing and that of its members, in the UK and internationally. "Our thanks go to all who have lent support and actively contributed to the ACT's success," Tyler added.

See Blighted by the 21st century, page 13

WORDS

"I think it's a concerted effort that's been organised at the top of the US government. I think this is Washington trying to win a commercial battle to have trading from London shifted to New York."

John Mann, a member of the UK parliament's finance committee, blames political intrigue for the Standard Chartered Iranian money-laundering scandal.

SOURCE: BBC, 8 AUGUST 2012

{ QUESTIONS YOUR FD IS LIKELY TO ASK THIS MONTH }

BANK LOAN OR BOND ISSUANCE?

What is the bond market like these days?
It's very healthy. This is particularly good news for companies at the lower end of the rating spectrum as it lessens their reliance on bank loans. Research by rating agency Fitch found that European corporates tapped more bonds than loans in the first six months of this year – the first time that securities market issuance has outpaced the loan market.

So bonds are booming?
Yes. In the first half of 2012, €241bn was raised on the bond market, up from €179bn in the same period last year. Overall, bonds comprised 52% of the total amount of new funding (bonds and loans combined), which was €467bn, according to Dealogic. This compares with just 29% for all of 2011.

By the end of 2011, bonds represented 73% of debt used by large European companies, according to an analysis of 201 corporates with total debt of €1.6 trillion rated by Fitch.

Why are bonds doing so well?
High-grade, non-financial corporate bonds are seen as a safe haven by investors. They are wary of volatility in the equity market and unsettled by the sovereign debt crisis, which has exposed the debt of some countries to be riskier than previously thought.

Corporates outside the peripheral eurozone countries are seen as a safe bet in comparison. Investors are also looking for yield in a low interest rate environment, which enabled European high-yield issuers to rack up €33bn in bonds in the first half of 2012. But buyers at the lowest end of the rating scale still struggled to tap the market.

What about the banks then?
It is becoming increasingly difficult for banks to price loans competitively to bonds, which is why many borrowers opt for the bond market. Banks now pay roughly the same, or higher rates, to borrow money than the corporates they lend to. They also pass on higher costs as a result of the increased regulatory capital and liquidity requirements under Basel III. Meanwhile, funding demand from corporates has dropped since many have cut back on their capital expenditure and built up their cash reserves instead.

{ BARCLAYS/ACT CORPORATE RISK MANAGEMENT SURVEY }

THE RISK CONCERNS OF CORPORATE TREASURERS

◆ **Treasurers are concerned by the global economy and counterparty risk** ◆ Reducing earnings volatility is the top risk management objective for corporate treasurers ◆ **FX transaction risk is still the highest-ranked concern, followed by liquidity risk and counterparty risk** ◆ 60% of companies see market volatility in some form as the biggest risk management challenge facing treasurers ◆ **Banking relationships have been simplified, with treasurers tending to ask all core banks for risk management support** ◆ Companies rank counterparty credit quality as the second most important factor when choosing risk management banks after pricing and execution capability

{ LAW AND REGULATION }

LIBOR REFORM LOOMS

The London Interbank Offered Rate (Libor) will be 'comprehensively reformed' to restore confidence in the interbank lending rate-setting system, the UK government announced last month. The move comes in the wake of the rate manipulation scandal that implicated a number of global banks including Barclays, which was fined £290m by UK and US regulators in June.

An initial discussion paper by Martin Wheatley, the managing director of City watchdog the Financial Services Authority, floated proposals to strengthen, or even replace, Libor with a new benchmark interest rate.

The suggestions include: basing the rate on data from real money market transactions, rather than relying on the judgements of individual participants; requiring the organisation that publishes the rate to corroborate submissions; widening the definition of funding to include all wholesale deposits; narrowing the scope of Libor by reducing the number of currencies and maturities that are submitted; strengthening governance and oversight; and introducing stronger sanctions to prevent abuse.

The paper also proposed migration to an alternative interest rate instrument such as one linked to a central bank policy rate.

But Wheatley warned: "Estimates suggest that there are at least $300 trillion of existing transactions that reference Libor. The scale and scope of existing contracts, and the non-standardised documentation for those contracts, means that any transition to an alternative rate would be difficult to achieve."

For more on Libor, see Technical briefing on page 10 and Jeremy Warner on page 15

NUMBERS

€1.6 trillion
the amount that the eurozone's banks will shrink their balance sheets by in 2012 as the result of disposals of non-core assets and a contraction in lending activity, according to the Ernst & Young *Eurozone financial services forecast*

£44.4bn
the total value of UK M&A activity in the first half of 2012, a 17.5% increase in deal value compared with the same period in 2011, according to Mergermarket

1,900
the number of jobs Deutsche Bank plans to cut by the end of 2012, most of which will be outside Germany

38%
the UK's proportion of global FX trading in April 2012 in the latest figures from TheCityUK

6%
the increase in UK chartered accountants requesting help with mental distress in the first six months of 2012, revealed by the Chartered Accountants' Benevolent Association

0%
the UK's predicted economic growth in 2012, according to the Bank of England, down from 2% predicted last year

WHAT THEY SAID

"We believe that the banks cannot avoid an element of judgement, despite their wish to run away from that. To reduce their liability they need a robust external legal framework and strong compliance procedures internally. Regulators need to be engaged with the rate-setting process and its governance – bringing unwelcome reputational risk for the regulators."
Colin Tyler, ACT chief executive (above left)

"The review's initial thinking on the Libor issues is a sensible direction to take in order to restore confidence in this area and in our banking system more widely. We welcome the focus on moving towards more transaction-based data for setting benchmark rates, improving internal governance within the banks, and strengthening the accountability of individuals."
Dr Neil Bentley, Confederation of British Industry deputy director-general (above right)

What do you say?
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{ CAPITAL MARKETS AND FUNDING }

CLICK FOR CASH

Online auctions may be the answer to the funding crisis facing Britain's SMEs, a report by the Centre for the Study of Financial Innovation (CSFI) has found.

According to the CSFI, internet-based commercial finance brokers are helping to make SME funding more competitive by allocating various types of finance including debt and working capital.

"The new internet platforms that are emerging can offer important benefits to both consumers and businesses – in particular, the ability to diversify their risks quickly and cheaply across a wide group of counterparties," the report said.

But it warned that the growth of alternative sources of finance for SMEs was fuelled by a period of 'extraordinarily low interest rates', which made the channel attractive to retail investors unable to find good returns elsewhere.

{ CASH AND LIQUIDITY MANAGEMENT }

PROFITS DOUBLE FOR FOREIGN BANKS IN CHINA

Business is booming for China's 181 foreign banks, which saw their profits more than double in 2011 to RMB 16.73bn, up from RMB 7.78bn in 2010.

According to the seventh PwC Foreign Banks in China survey, this growth was fuelled by strong demand for corporate credit from multinationals expanding within China and an increasing number of customers from state- and private-owned enterprises. Internationalisation of the renminbi, along with strong demand in derivative trading with financial institutions and corporate clients, also boosted profits. Meanwhile, the banks' total assets grew 24% to RMB 2.15 trillion over this same period.

And, despite China's subdued economic outlook, foreign banks still predict annual revenue growth of 20% or more until 2015.

"China's foreign banks have performed strongly," said Mervyn Jacob, PwC financial services leader for China and Hong Kong. "China is shifting away from a production-export market to a domestic-consumption-driven economy. This means new opportunities for foreign banks to diversify into emerging market sectors. They will also be able to leverage their global expertise as more Chinese firms seek to expand offshore."

For more on China, see A yearning for yuan, on page 20

{ KEY FINDINGS FROM ERNST & YOUNG'S *RAPID-GROWTH MARKETS FORECAST* }

THE STATS

>100%

RGM households with an income of over $30,000 will more than double by 2020, overtaking the US and the eurozone

>40%

Emerging markets currently account for less than a quarter of the services sector globally. But in 25 years' time, it is estimated that emerging markets will make up more than 40% of the services sector across the world

40%

In 2011, two-thirds of consumer spending across the world came from the advanced economies, with the remaining third coming from the emerging markets. But in 25 years' time, emerging Asia alone will have overtaken the advanced economies as the key source of consumer spending, responsible for almost 40%

{ AROUND THE WORLD IN 30 DAYS }

REGULATION, RGMs AND RATINGS

FATCA model agreements

Compliance with the US Foreign Account Tax Compliance Act (FATCA) should become more straightforward after the US Treasury Department issued the first model for an intergovernmental agreement at the end of July. The model sets out the FATCA partner country's due diligence obligations for identifying and reporting on US accounts and on payments to certain non-participating financial institutions. The FATCA partner will transmit the necessary information automatically to the US Internal Revenue Service under either existing bilateral tax treaties or tax information exchange agreements.

RGM slowdown is a 'blip'

Although economic expansion in the 25 leading rapid-growth markets (RGMs) has started to slow sharply since the beginning of 2012, this is just a temporary blip, according to Ernst & Young's quarterly *Rapid-Growth Markets Forecast*. The research found that RGMs, particularly those in Asia, have the right tools to ease fiscal and monetary policy, allowing growth to resume towards the end of the year. GDP in RGMs is forecast to expand by 4.9% this year and output is expected to pick up by 6% in 2013.

Negative outlook for Hungary

The outlook on Hungary's banking system remains negative, Moody's warned last month. The rating agency cited a persistently weak operating environment, further deterioration in asset quality and continued pressure on profitability, funding and capitalisation. Moody's said that the "pressures within the operating environment" would cause the banks' asset quality to deteriorate further. Adverse exchange-rate dynamics, a large loan portfolio denominated in Swiss francs, weak macro-conditions, increasing business bankruptcies and a construction slump indicate mounting pressure on problem loans.

{ TECHNOLOGY }

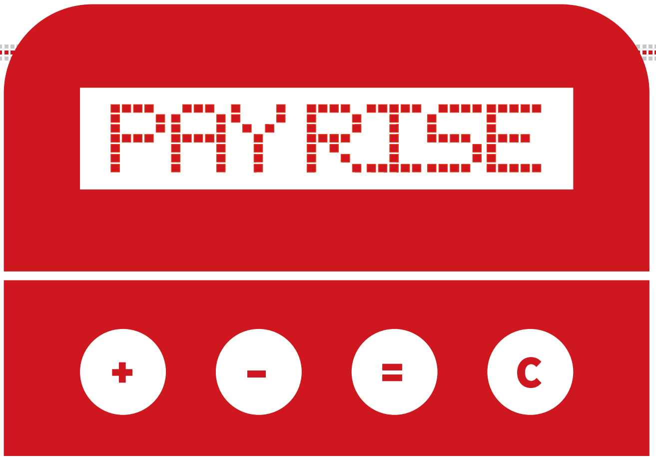
MOODY'S EXPANSION

Moody's Analytics has expanded its Alternative Scenarios economic forecast service to cover 49 countries, representing more than 93% of world economic output.

The economic forecasts include a baseline, or most likely outcome scenario, and six alternative economic scenarios covering both downside and upside risks. The service can help financial institutions manage their portfolios amid evolving economic conditions. By testing the impact of shocks and differing economic assumptions on their portfolios, they can expose potential vulnerabilities in their business model.

Meanwhile, the six alternative economic scenarios can be applied across single or multiple countries to help multinationals understand the risks in their global portfolios.

For more on technology, see page 56



{ CAREER }

TREASURER 'TEMPS' GET PAY RISES

Treasurers working on short-term contracts have seen their pay packets boosted since last year. A salary survey by recruiter Robert Walters found that contract rates leapt 7.3% year on year, while permanent salaries crept up just 1.2% during the same period.

Although salary increases are across the board, they are particularly noticeable in some roles. Treasury managers with four years' experience or more will take home at least £35 per hour (compared with £30 last year), while those with two to four years' experience can expect £30 (compared with £25 in 2011).

Lee Slimming, treasury recruitment specialist at Robert Walters, said: "These salary trends reflect what we have been seeing in the treasury recruitment market: cautious optimism. It is particularly interesting that contract rates have increased so dramatically and this reflects the emphasis employers are placing on bringing strong people in on a short-term basis."

She added that the treasury jobs market was looking "relatively positive overall" with the majority of vacancies at junior to middle management level in the £35,000-£60,000 salary range.

For jobs, see page 64

{ UPS AND DOWNS }

GOOD MONTH: BNP PARIBAS

Good news is hard to come by in banking these days, so BNP's surprisingly strong quarterly profits, announced last month, gave the sector a welcome boost. Although profits for the second quarter were down 13.2% to €1.85bn, this was better than investors had expected and came as a result of job and spending cuts, asset sales and lower provision for loan losses. France's biggest listed bank also announced that it had achieved a tier one capital ratio of 8.9% under the international Basel III regulation, which aims to ensure banks cushion themselves from future financial shocks. Under Basel III, banks must hold a ratio of 9% tier one capital by 1 January 2013. BNP's achievement came six months ahead of schedule, giving it a lead over many of its rivals.

BAD MONTH: STANDARD CHARTERED

Just when you thought the reputation of the financial sector couldn't get any more tarnished, up pops Standard Chartered to have a crack. The London-based bank was hauled over the coals by New York's State Department of Financial Services last month for allegedly laundering $250bn of Iranian money between 2001 and 2007 in defiance of US sanctions on Iran. A report by regulator Benjamin Lawsky memorably accused the bank of leaving the US financial system "vulnerable to terrorists, weapons dealers, drug kingpins and corrupt regimes" and threatened to revoke Standard Chartered's banking licence in the state. Standard Chartered chief executive Peter Sands insisted that there had been "no systematic attempt to circumvent US sanctions" and apologised for some deals that were in breach. The bank agreed to settle the allegations by paying a $340m fine.

MAKING THE NEWS

Turkish Bank fined

Turkish Bank's UK unit has been fined £294,000 for breaching money-laundering regulations. The UK Financial Services Authority imposed the fine after Turkish Bank (UK) failed to put in place anti-money-laundering safeguards when providing services for overseas financial institutions. The penalty comes in the wake of embarrassment for HSBC over its lax money-laundering controls in Mexico.

IIRC publishes framework

Integrated reporting of financial and non-financial information has moved a step closer after the International Integrated Reporting Council (IIRC) released a draft outline of the integrated reporting framework. The outline is intended to keep stakeholders informed as the framework is developed.

CBI pension protest

The Confederation of British industry (CBI) has asked the UK government to prevent soaring pension costs harming businesses' ability to invest and create jobs. It urged action to address artificially high deficit figures, driven by low gilt yields. The Bank of England's quantitative easing programme and the relative attraction of UK government debt over that of some eurozone countries have driven down gilt yields. As gilt yields are used in valuing the likely cost of future pensions, this has pushed deficits up, even though there has been no change in the underlying funding position.