Niall speaks out for treasurers

Reuters Chairman addresses ACT Annual Dinner and encourages corporate treasurers to raise their profile.

Treasurers can, and should, progress up the career ladder to the post of financial director, provided that they develop a good understanding of the wider business in which they work, the issues it faces and the industry in which it operates.

This was one of the key themes of an uplifting speech made by Niall FitzGerald, Chairman of Reuters, at the ACT's Annual Dinner, sponsored by RBS, which was attended by 1,600 members and guests.

FitzGerald, who spent two years as Treasurer of Unilever and ultimately became its Chairman and CEO, said there are plenty of opportunities for treasurers to raise their profiles in their companies. They also have a crucial role to play in helping the board in its strategic planning and in developing the financial flexibility of the organisations they work in.

Reviewing how treasury and the financial markets have changed since 1987, Fitzgerald also discussed the growth in transaction-based relationships between banks and companies as well as the development of the more complex products being promoted to companies today. The emergence of new exposures and increased pressure to match assets to liabilities are key developments in treasury which will require even greater skills from treasurers in the years to come, he said.

He added that the increased complexity of derivatives is likely to test and enhance treasurers' skills sets. The management of corporate pension schemes is also an area that requires greater attention from treasurers, particularly when it comes to matching liabilities to assets.

The new chairman of Reuters also discussed predictions he made in 1987 of greater activity being encouraged in issuance, trading and takeovers and banks' motivation by fees and league tables.

The evening, held at the Grosvenor House Hotel in London on 10 November, which also celebrated the ACT's 25th Anniversary, was introduced by Chris Jones, President of the ACT, who paid tribute to the pioneers "who had the foresight to recognise the challenge of the discipline of treasury and to form the Association" (see *The way we were*, page 37, *The Treasurer*, July/August). Today the Association has 3,300 members who operate from more than 40 countries and work in companies representing about 95% of the FTSE 100.

Jones discussed the ACT's role in education where there are now 1,500 students and a rising number enrolling. One of the qualifications – Cert ICM – is now available to students in Hong Kong, Brussels, Dublin and Sydney.

UPLIFTING: Reuters Chairman Niall Fitzgerald addresses diners at the ACT Annual Dinner

The President then presented the prize for 2004 ACT Student of Honour to Patrick Lindley from Zurich Financial Services, who gained a distinction in both Corporate Financial Management and Treasury Management exams.

Returning to the ACT's key roles, Jones said: "The Association has, over the last year, been very active in representing treasurers' interests. We have been heavily involved in the development of an effective code of practice for the credit ratings industry. Just as important has been our challenge to certain aspects of a new, little-known, user-friendly and much loved accounting standard… IAS 39."

He concluded: "We do, however, remain of the view that a comprehensive set of standards is more important than addressing the concerns of every vested interest."

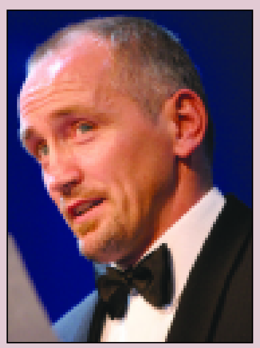
Jones also discussed the current trends in the professional association landscape. "The euro zone grouping of corporate treasurers' associations has voted to admit all European members, which is certainly preferable to us waiting for the UK to join the euro. We are delighted with this development and see it as a significant opportunity to become more international by supporting the other associations in Europe much more effectively." ■

Charity donation is a real knockout

The ACT's Annual Dinner also proved a major success in that it raised £19,500 for Cancer and Leukemia in Childhood (CLIC), the UK's leading cancer charity for children.

The money was raised following a moving speech by former boxing world champion Barry McGuigan (pictured) whose young daughter has suffered from leukemia.

Attendees were invited to bet on the length of speeches and donate money; those with the luckiest punt on each table were invited to complete a prize draw entry ticket. The prizes awarded included an overnight stay at the Celtic Manor Resort, a case of champagne and Red Letter Day vouchers.



SPEECH: Barry McGuigan

"We are delighted to have raised such a large amount. It really was a fantastic night and we all thoroughly enjoyed being a part of the ACT's 25th anniversary dinner," said Vicki Hill, CLIC's Corporate Account Manager.

The charity provides grants to medical practitioners and funds research, as well as providing a financial cushion for families during a crisis.

CLIC was introduced to the ACT by Dyson UK, which also agreed to donate some of its equipment, on behalf of the ACT, to a CLIC care home for children who are in need of bone marrow transplants. ■

IN BRIEF

■ Independent futures broker **Man Financial** has gone live with Simcorp's IT/2 treasury management system. It claims that the new treasury has considerably reduced processing time for thousands of cash transactions. "At a time when the company was experiencing rapid growth, handling considerably higher volumes of transactions in a controlled fashion was becoming more challenging," said Director of Treasury John Wilson. "Having integrated IT/2 with an upstream and downstream system, processing times for the thousands of transactions we have every day have been reduced dramatically."

■ **PricewaterhouseCoopers** has launched a new online tool, shareTax, to help companies operating across borders. It calculates tax and social security witholding obligations for employees in each country a company operates in.

■ **Foreign Exchange Funds Transfer Initiation** (FX FTI) is a new online service which claims to offer corporates the ability to streamline FX payments through rapid payment creation and competitive real-time rates. FX FTI aggregates same currency payments and provides optimal exchange rates for 39 currencies, according to JPMorgan. Payments are automatically debited from a company's domestic currency account, eliminating the need for multiple currency accounts and reducing management and reconciliation costs. The service is available through JPMorgan's web-based client access platform.

■ There have been a total of 307 responses to **JPMorgan Fleming Asset Management's International Cash Management Survey for 2004**, which is being conducted in association with the ACT. The full results of the survey, which aims to provide an understanding of the current dynamics of the cash management industry, will be published in the January/February issue of *The Treasurer*.

Merry Christmas from the ACT

As has become customary, the ACT will not be sending Christmas cards this year, but will be making a charitable donation. This year's charity is **Great Ormond Street Hospital (www.gosh.org)**. *The Treasurer* would like to to wish all of its readers a very Happy Christmas and a prosperous New Year. ■

Derivatives impact P&L, finds survey

Use of derivatives is impacting companies' financial statements. All but one of the companies surveyed in a recent poll of 57 global corporations (representing more than US$1 trillion of debt) had experienced significant profit and loss swings, according to a recent survey by Fitch Ratings.

Of the sample, 95% had satisfied, and elected to apply, hedge accounting – at least to part of their derivatives portfolios – but there were consequences. Ford Motor Company, for example, reported US$3.5bn of derivative gains in income as a result of hedge ineffectiveness and derivatives 'not being in a hedging relationship.'

Ford has experienced derivative gains in income resulting from hedge ineffectiveness.

Although the companies surveyed had notional derivatives positions nearing US$500bn, on a fair value basis the companies reported US$39bn of derivative assets. On a notional basis, interest rate swaps accounted for the bulk of derivative transactions, followed by currency and commodity derivatives. On a fair-value basis, the largest amount was in currency derivatives.

"Hedge accounting can alter important debt and equity ratios, making period-to-period and company-to-company comparisons tricky," said Fitch Ratings.

"While hedge accounting may dampen income statement volatility, there are balance sheet consequences that should be recognised by investors and analysts. Moreover, there may be wide disparities in the income effects.

"Additionally, the financial reporting consequences of hedge accounting make earnings before interest, taxes, depreciation and amortisation less viable as a cashflow measure."

Fitch found wide disparities in disclosure across companies and industries, even for generic instruments such as interest rate and currency hedges.

Another key concern was the potential for reporting and restatement risk across corporate sectors as a result of hedge accounting difficulties. The study found a lack of consensus among companies over disclosure and application of Statement of Financial Accounting SFAS 133 and IAS 39.

Fitch ratings added: "This, in turn, may indicate an absence of uniformity or misapplication of hedge accounting rules. This doe not bode well for the pending implementation of International Financial Reporting Standards (IFRS) for most large European companies. Consistency will be achieved only if auditors insist on applying the rules rigorously."

The survey revealed that companies are not engaged in widespread speculation using derivatives, but a number of them had taken positions over future changes in the prices of commodities and equities. Some of them had also used interest rate swaps to convert fixed-rate debt into floating rate debt. In the event of interest rate, exchange rate or commodity prices, this could result in unanticipated earnings volatility and/or skewing of key credit ratios.

Of the sample, 11% had derivative positions in their own shares. This, particularly forward purchases or written puts, has led to unexpected losses in the past, warned Fitch.

There was limited use of credit derivatives among the companies surveyed. Concerns about self-referenced credit-linked notes and other forms of exotic derivatives were heightened following the collapse of Parmalat.

Counterparty disclosure was weak. Only 26% of survey respondents provided detailed information on counterparty credit risk. ■

Steering clear of the pensions black hole

Pension scheme accounting and the investment solutions available to manage pensions risk were the key topics addressed at a recent evening symposium, sponsored by AXA Investment Managers.

Opening discussion on *The Pension Fund Black Hole*, Stephen Pugh, Finance Director of Adnams, pointed out that corporate treasurers and finance directors should be concerned with two key issues – the scale of a pension scheme's problem and how it appears in their financial accounts.

Corporates' key priorities, he said, should be to look at the approach taken to a scheme's valuation and whether the figure it provides is correct, as well as the structure of the ongoing scheme. Escaping the problem altogether – by looking for a buyer, for example, or managing the problem by putting money directly into the scheme, are also options.

Vincent de Martel, Director, Liability-Driven Solutions at AXA Investment Managers, then discussed ways of managing defined benefit risks, pointing out that while 'active' risk is perceived as the most important risk, 'liability' risk is where the attention should really be focused. "The design of the investment portfolio must be closely related to the liabilities as they change with market conditions," he said.

De Martel also pointed out that new lines of communication must be set up between funding companies and their trustees.

Table 1. Duration of most commonly used benchmarked indices

	Duration (Years)
Bond Benchmark constituent	**6.3**
FTSE UK Gilts All Stocks	8.0
Merrill Lynch Corp Bond	8.3
FTSE 5-15yr UK Gilts Indexed	9.2
FTSE UK Gilts All Stocks Indexed	10.8
FTSE > 15yr UK Gilts Indexed	16.2

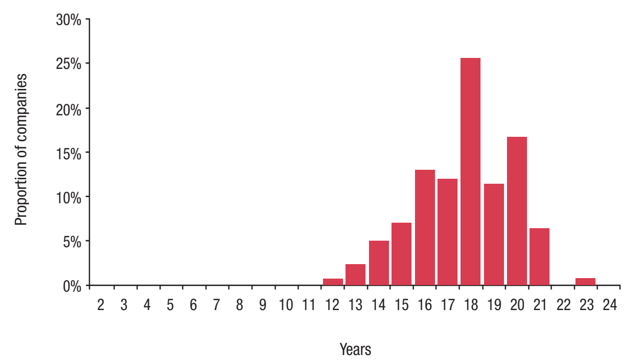
Recognising that in today's market conditions, pension schemes are investing more assets in bonds, de Martel stressed the challenges of matching bond assets to the underlying liabilities.

More than 70% of funds have liabilities that exceed the longest duration index available . While most schemes have liabilities of 15-21 years (see *Figure 1*), the most commonly used benchmarked indices start from 6.3 years and rise to 16.2 years (see *Table 1*).

"Duration mismatching can cause significant changes to solvency levels," added de Martel, pointing out that a slight change in interest rates can seriously impact the difference between the value of assets and liabilities where there is duration mismatching.

De Martel also endorsed the use of swaps to match the duration of a fixed income portfolio to the duration of the liabilities.

Figure 1. Duration of UK defined benefit plans (FTSE 350 companies)



While interest rate risk was identified as the main risk for pension schemes, inflation risk, equity risk, longevity risk and sponsor default all bring concerns too. "The world is moving to a marked-to-market (MTM), fair value approach," said de Martel. "There should be more emphasis on the traditional matching of assets and liabilities." ■

On the move...

■ **Amy Aldridge AMCT** has joined Craegmoor Healthcare as Treasurer. She was previously Deputy Group Treasurer for Wagon plc.

■ **John Ambrose AMCT**, formerly Treasury Manager with Markel International, has been appointed Assistant Group Treasurer at Group 4 Securicor plc.

■ **Geoffrey Brown MCT** has joined Hongkong Land as Finance Director. He previously worked at Jardine OneSolution Holdings Ltd as Group Finance Director.

■ **Sharon Burgess AMCT**, previously Group Cash Manager at MyTravel Group plc, has joined United Utilities plc as Treasury Executive.

■ **Robert Carr AMCT**, formerly Senior Treasury Analyst at 3Com Europe Ltd, is now Finance Manager – Treasury Reporting at Reckitt Benckiser plc.

■ **James Coleman FCT** has joined Abu Dhabi Commercial Bank as Executive Vice President and Head of Treasury and Investments. He was previously employed at NatWest Capital and Nationwide Building Society. Most recently he was Managing Director for Ploutos Ltd.

■ **Les Cullen FCT** has recently joined Avis Europe plc as a Non-Executive Director and Chairman of its Audit Committee, roles he also holds at DTZ Holdings plc.

■ **Simon Neville FCT** has been appointed Group Treasurer of Collins Stewart Tullett plc following its acquisition of the Prebon Group where he was Group Treasurer.

■ **Jamie Smith MCT** has been appointed Interim Group Treasurer of the Weir Group plc. He was formerly Group Treasurer at Tibbett & Britten Group plc.

■ **Sean West MCT** has joined Land Securities Group plc as Treasurer. He previously worked as the Funding Manager – Securitisation and Financial Strategy at Network Rail.

■ **Phil Wood MCT**, formerly Financial Controller, International, HSBC Bank plc, has been appointed Director of Finance at Killik & Co.

MEMBERS' DIRECTORY:

Members' contact details are updated regularly on: **www.treasurers.org**
Email your changes to Anna McGee: **amcgee@treasurers.co.uk**

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The News section was compiled by Liz Salecka • Press releases should be addressed to lsalecka@treasurers.co.uk.