KPIs drive essential change

Key performance indicators (KPIs) are essential for streamlining and driving change in a successful treasury department, according to a leading European treasury expert.

Mark Kirkland, Global Head of Financial Risk and Cash Management at electronics giant Philips, said that defining appropriate and realistic performance measures could enable a treasury to implement best practice.

"If you want to streamline and keep in line with what your main drivers are, you have to have KPIs," he said. "At Philips, the treasury department establishes the KPIs with the CFO in line with the agreed treasury strategy, then each department within treasury defines its own KPIs within those."

Kirkland said KPIs were the best way to enable change partly because staff bonuses could be easily set against them.

Kirkland said: "I can't imagine an investment bank not having clear and defined targets and measures. How else could they measure how well they have done? Why is this not the same for treasury? Without KPIs you have a rather wishy-washy style of management."

For more on KPIs, see cover story, Under Pressure, page 22. ■

Cash Survey 2006

JPMorgan Asset Management and the ACT are launching their Global Cash Survey 2006. Now in its eighth year, the research aims to provide cash insights for treasurers and identify ongoing trends among treasurers in the short-term investment management industry.

The survey is designed to capture the thoughts of treasurers in the US, Asia and Europe. New survey questions have been included to gain more knowledge on currency options for surplus cash.

To participate in the survey, visit the ACT website at www.treasurers.org.

For every completed questionnaire JPMorgan Asset Management will donate £10 to the International Red Cross. ■

Transparency crucial for hedge fund investors

Transparency and good management are the key elements for treasurers investing in hedge funds.

Hedge funds have been in existence for many years now and have become a viable method of investment, with the UK industry totalling £1 trillion.

Speaking at an introduction to hedge funds organised by the ACT's London Regional Group, Chris Jones, the Chief Investment Officer at Key Asset Management, explained that hedge funds had evolved over the years into different types.

Jones said: "Different funds act in different ways, which can result in there being many complexities that, as an investor, you have to be aware of.

"Hedge funds have very broad management, which takes into consideration different aspects of the market."

Hedge funds have been growing in popularity and so has the need for good managers that can provide investors with solid and reliable information.

Jones said: "Hedge funds are different to other types, not necessarily better. You should always consider how the fund can benefit you and what the services the fund manager can provide and what regulation they are subjected to.

"In the UK, hedge funds are registered and covered by the Financial Services Authority. In the US they can be voluntary members of the Securities and Exchange Commission. Our view is that if they choose not to be registered with the SEC, then we ask why not."

Jones emphasised that good information flows were very important to ensure that investors were always kept in the loop with any developments that could be vital for them. ■

On the move...

- **Anthony Bowers**, AMCT, formerly Internal Auditor at Instinet Group, has been appointed Director Corporate Audit at Amgen.
- **David Carroll**, AMCT, has been appointed Group Finance Manager at Sony Computer Entertainment Europe. Previously he was Group Accountant at Elementis.
- **Fiona Chan**, AMCT, previously Senior Manager at KPMG Audit and Risk Advisory Services, has joined Cadbury Schweppes.
- **Gary Hall**, AMCT, has been appointed Group Finance Manager at Logicalis. Previously he was Financial and Systems Analyst at Elementis.
- **Jonathan Hodgson**, AMCT, formerly Director of Business Development at Adsatis, has been appointed PBO Counterparty and Compliance Data at Reuters Group.
- **SA Benedict Hopkins**, MCT, previously Chief Financial Officer at Provexis, has been appointed Director at Zolotera and is charged with raising funding and preparing the company for a listing on AIM in spring 2008.
- **Jim Irvine**, MCT, has joined Henderson Global Investors as Head of Structured Products. Previously he was Managing Director, Structured Investment Group, at JPMorgan Chase.
- **Kam Hong Leung**, MCT, previously Senior Treasury Analyst at Kraton Polymers International and Senior Treasury Consultant at Deloitte & Touche, has joined SunGard AvantGard as Treasury Consultant.
- **Joanne McMaster**, AMCT, previously Treasury Analyst at Scottish Power, has been appointed Head of Cash Management at Aegon UK.
- **Jonathan Medlam**, MCT, formerly Business Support Development Manager at Abbey National Treasury Services, has recently been appointed Head of Group Reporting at Star Infrastructure Investments.
- **David Poynton**, AMCT, formerly Corporate Credit Analyst at Investec Bank (UK), has been appointed to the newly created position of Head of Credit Analysis at Lane Clark & Peacock.
- **Stuart Rudkin**, MCT, formerly Head of Liquidity, Investment and Analysis at Royal Mail Group, has joined Nottingham Building Society as Treasurer.
- **James Thomas**, AMCT, previously Treasury Manager at PricewaterhouseCoopers, has joined Benfield Group as Treasury Manager.

MEMBERS' DIRECTORY

Members' contact details are updated regularly at **www.treasurers.org**. *Email changes to Anna Corr:* **acorr@treasurers.org**

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Pensions in the limelight

Boards, shareholders and analysts are attaching more importance to pension funding and investment strategies. The move comes at a time when evidence suggests that the pension crisis could be easing for Britain's quoted companies.

In a survey carried out by Mercer Human Resource Consulting and the ACT, chief financial officers and treasurers revealed there was a changing attitude to pension risk within UK companies and in the City. However, the survey found little evidence of significant strategic change to deal with investment risk.

Tim Keogh, Worldwide Partner at Mercer Human Resource Consulting, said: "Despite an intensive marketing drive by investment banks, the adopting of hedging strategies is far from widespread."

Keogh: Slow hedging take-up.

Such strategies, though, may not be necessary. A quarter of FTSE 250 companies will be able to pay off their pension deficits within a year and just under half in three years from purely discretionary cashflow, according to a study by accountants KPMG.

But while some companies can relax a little, 28% of the companies surveyed lacked that sort of free cashflow and would therefore need to take action, such as reducing capital expenditure or dividend distribution to clear their deficits over the medium term. However, KPMG pointed out that a company's ability to pay off its deficit might be extremely sensitive to market movements.

Finally, after a three-year investigation into the UK pension system, a White Paper outlining the government's strategy has been published. Adair Turner, Chairman of the Pensions Commission, submitted his final report to the government in April this year with recommendations to overhaul the current system.

Key points include the gradual increase of the state pension age to 68 by 2044 and automatically enrolling employees into a National Pension Saving Scheme. Employees will contribute 4% to the scheme, employers 3%, with a corresponding tax relief of 1%. **For more on the Mercer/ACT survey, see Paying Attention page 32.** ■

Technology providers feel the Basel II heat

Basel II has started to turn the heat on technology providers as well as corporate treasurers, a new survey shows.

The global credit risk management systems market will experience 7% growth, rising to $7.96bn by 2010, according to the survey, *Credit Risk Management Systems 2006: Basel II and Beyond*, by Chartis Research.

The report forecast that the pure credit risk software market – estimated to be $1.2bn in 2006 – would continue to grow at an annual rate of 11%, hitting $1.8bn in 2010.

Helen Townsley, Director of Research at Chartis, said: "The growth in the credit risk market is fuelled by Basel II, the growth in credit risk derivatives and the increasing use of economic capital for managing financial performance."

The push towards making the treasury department a value-adding entity and ensuring it is fully compliant with various regulations has driven the development of treasury technology.

And Basel II has encouraged the treasury department to respond to the growing need for risk-based performance management, which has led to investments in risk and finance infrastructure and integration.

According to the Chartis report, there is a move towards enterprise risk management due to the overlaps between credit and market risk management, operational risk management, financial management and IAS/IFRS initiatives. **See When the Dust Settles, page 34.** ■

Pensions disclosure plan sets out six rules

The Accounting Standards Board (ASB) has issued an exposure draft reporting statement, entitled *Retirement Benefits: Disclosures*, to complement the disclosures in FRS 17 *Retirement Benefits*.

The draft reporting statement lays down six principles to consider when providing disclosures for defined benefit schemes. The principles address the following disclosures:

- The relationship between the entity and trustees (managers) of the defined benefit scheme;
- The principal assumptions used to measure scheme liabilities;
- The sensitivity of scheme liabilities to changes in the principal assumptions used to measure the scheme liabilities;
- How the liabilities arising from defined benefit schemes are measured;
- The future funding requirements to the defined benefit scheme; and
- The nature and extent of the risks arising from the assets held by the defined benefit scheme.

The draft reporting statement is designed as a formulation of best practice. It is intended to have persuasive rather than mandatory force and should leave entities with the flexibility to make appropriate disclosures for the risks and rewards they are exposed to in relation to defined benefit schemes. The draft also proposes amendments to FRS 17 to bring it in line with the disclosure requirements of IAS 19 *Employee Benefits*.

Meanwhile the Pensions Regulator has issued a discussion document on the form and content of pension scheme reports and accounts. Ideas for content include a governance statement, comments on risk management, and details of any recovery plan. There are also proposals for disclosures by defined contribution schemes including investment performance statistics.

In May the Pensions Regulator published its approach to regulating the pension scheme funding. In line with earlier consultative proposals, it will continue to use triggers to prioritise workload but these are not in themselves targets. The approach retains a 10-year view for recovery plans but will be flexible according to circumstances. The regulator has accepted the relevance and the importance of contingent assets and issued specific guidance on this aspect to encourage trustees to understand an employer's financial position and why the use of the contingent asset might be advantageous. ■