EU opts for carved-out IAS 39

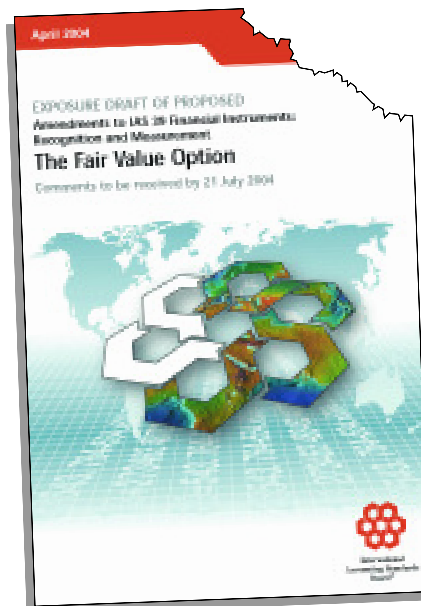
The European Union has gone ahead with adoption of the carved-out version of IAS 39 (See *News*, page 7, *The Treasurer*, October) in a move which could raise serious issues for UK and European companies in the process of adopting the new International Financial Reporting Standards (IFRS).

The Accounting Standards Board (ASB) responded by saying that the amended version is "unsatisfactory" and that it wants UK companies to comply as far as possible with the full hedging provisions of the original standard – not the amended version.

For those companies active solely in the UK, this will make little difference, but for those with international operations, the carved-out version represents a setback to convergence.

Effectively, it threatens the long-awaited harmonisation with US Generally Accepted Accounting Principles (GAAP).

"The position the EU has reached on adoption of IAS 39 is unsatisfactory," said Ian Mackintosh, ASB Chairman. He added that the carved-out version, if adopted, may give rise to artificial volatility in reported profits and difficulties in application. "There is also considerable uncertainty over the application of the adopted standard and its relationship to EU law, and those UK companies that will be applying international standards now have little time to address these difficult issues in order to implement the standard for 2005. Nor is it clear that these problems will in fact be resolved quickly."



The EU's decision to go ahead and opt for a carved-out version of IAS 39 has been met with criticism.

François Masquelier, Group Treasurer at RTL Group, said that the diluted version of IAS 39 with carve-outs will not really impact corporate treasurers, but will affect convergence going forward. "I guess the early adopters will continue to fully apply IAS 39," he said. "IAS 39 will remain an evolving standard and it's not the end of the story.

"We, as corporate treasurers, regret that the International Accounting Standards Board has not yet considered our two major issues – treasury centre netting for FX, which is prohibited, and inter-company cashflow forecasts (see *Response to hedging issues*, page 50), for which the amendment is not really satisfactory or practically adapted to multinational companies."

He said treasurers would generally be satisfied if the IASB dealt with the netting and cash forecasting issues. The requested changes, he added, are in line with FAS 133 and in line with the convergence ideal everyone is looking for.

"Treasurers have basic, practical and fair demands that they still hope to see amended. I do believe that the IASB could easily satisfy 100% of corporate treasurers by amending these two issues. I fear that the focus is mainly on bank issues rather than on anything else. That's a pity for us!" ■

Corporates targeting liquidity

European corporates' priority today is to gain liquidity in an economic atmosphere where lines of credit are tightening. At the same time, they are looking to replace relationship bank lending with other sources of mid to long-term finance.

These were the key findings of recent research into corporate financial priorities, which found that almost 11% of relationship lending volumes is expected to switch to alternative financing by the end of 2005.

Asset-backed finance, leasing and private equity were identified in the research, commissioned by Siemens Financial Services (SFS), as the most popular forms of alternative finance.

"Raising asset-backed finance from capital markets has become increasingly popular amongst larger corporates, principally by securitising their invoice ledger," said the report. "However, more interesting is the recent emergence of invoice securitisation for SMEs, thanks to improvements in the automation of the process. Pools are being formed through the aggregation of many SMEs' debtor books into a portfolio size that is economic to offer the capital markets."

Lease finance is also likely to be a major beneficiary of the switch to alternative financing. SFS research earlier this year indicated that IT leasing will increase by 2% in Germany and 5.5% in the UK. "The attractions of leasing are not simply tapping into additional lines of credit," said the report, "but also cashflow-friendly finance, as well as the flexibility of being able to upgrade equipment during the term of the lease."

The report pointed out that the switch to alternative finance will be facilitated by the banks themselves, but a proportion will be funded by non-bank finance companies. ■

Christmas competition

Together with **Standard & Poor's**, the ACT will be running a Continual Professional Development (CPD) Christmas competition throughout November. The competition is based around the key areas of knowledge in treasury and comprises six questions with a Christmas theme. The winning entry will be sent a seasonal hamper. Exercise your brain at this time of indulgence by visiting the ACT's CPD site at **www.treasurers.org/cpd**. ■

FORTHCOMING EVENTS

REGIONAL GROUPS

24 November – **BRITISH ENERGY, DECLINE AND RESTRUCTURE**
28 January 2005 – **BLACK TIE DINNER AT BALMORAL HOTEL**
March 2005 – **FINANCING STRATEGIES**

For more information, contact Anna McGee amcgee@treasurers.co.uk Tel 020 7213 0719. Or visit our website at ***www.treasurers.org/membership/rgoevents.cfm***

Pensions – a critical issue for treasurers

The warnings issued in relation to the inadequacy of pension provision in the UK by the first Independent Pensions Commission report has led corporate treasurers to look to their own houses again. It has put the spotlight not only on government policy – but also the need to deal with the shortfalls that continue to cripple corporate pension schemes.

"The report really reminds us that the pension issue is critical, that it is not going away and it is something we all need to address," said the treasurer of one major corporate. "We have seen many companies making changes to address shortfalls, which is key. However, it is clear that more needs to be done, both by ourselves within corporate Britain and, as the report notes, through governmental initiatives."

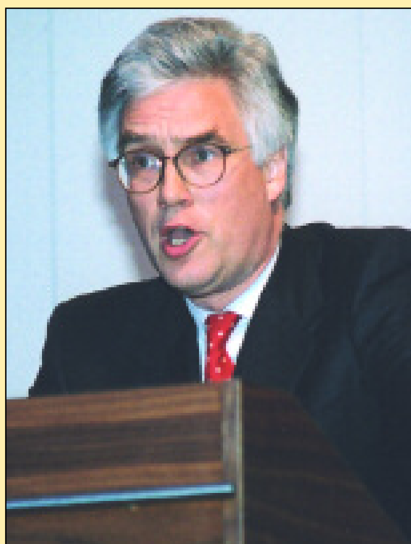
The report says that public expenditure constraints and an increasing number of pensioners mean that state pension provision per pensioner will decline relative to average earnings. But, according to the findings, rather than increasing to fill the gaps, private pension savings – and in particular employer provision – are in significant long-term decline. The shift from final salary (Defined Benefit) schemes to less generous money purchase (Defined Contribution) schemes is the major reason behind this.

As a result, if current trends continue over the long-term, future pension income will be deficient and, increasingly, unequally distributed. Home ownership could provide important retirement resources for many people, but is not a sufficient solution to the problems. Unless a planned and comprehensive policy, which can be sustained over the long-term, is introduced soon – the problems faced will be even more severe in 10 to 25 years' time.

Last year, investment bank Morgan Stanley reported that FTSE 100 companies collectively faced an £85bn pensions deficit.

Companies such as Sainsbury – highlighted in the Morgan Stanley research – have made changes to their pension policy to deal with existing funding deficits.

Marks & Spencer, meanwhile, became the first UK company to turn to the capital markets and launch a £400m bond specifically for its Defined Benefit pension scheme, which had revealed a £585m shortfall.



Adair Turner said the potential for a shortfall in company pensions should have been spotted at least 20 years ago.

However, some analysts have said that, in the vast majority of cases, the changes being implemented by most companies are not enough. At the same time, investment strategies – such as the move to increase the percentage of a portfolio invested in higher return, but also higher risk equities, and decrease investment in the more secure bond market – may increase the probability of the existing deficits growing.

Adair Turner, Chairman of the UK Pensions Committee, who authored the report, said: "The underlying problems have been getting worse for 20 years at least, but were masked by the temporary impact of the baby boom generation, by a failure to anticipate the scale of life expectancy increases and by the irrational equity market exuberance of the 1980s and 1990s.

"We must now make adjustments which we should ideally have begun 20 to 30 years ago. And to get policy right we need to look comprehensively at all aspects of the problem. Too often in the past, under successive governments, pension policy has addressed specific problems without a clear overall context. This has had unintended and adverse consequences."

The Pensions Commission will publish a second report, which will include policy recommendations, in Autumn 2005. ■

IN BRIEF

- The pension fund industry has yet to significantly improve the amount of training it offers its trustees, according to recent research sponsored by Instinet Europe.

Three years ago, the Myners Review recommended that trustees should receive more training to fulfill their responsibilities to their pension funds. The recent research revealed that the number of funds that have increased trustee training has improved from 48% last year to 63%; however, the average number of training days has barely changed at 3.3 days per year.

The research also found that the proportion of training in relation to assets under management is greater for smaller funds.

- Risk Solutions, the risk management arm of Standard & Poor's, has been mandated to supply its new Portfolio Risk Tracker (PRT) product to the treasury operations of the European Bank for Reconstruction & Development.

The PRT, which has been developed for use by banks and large corporates, provides daily Value-at-Risk analysis across portfolios containing a broad range of assets.

Members vote on Revised Articles

At the ACT's Extraordinary General Meeting (EGM), held on 30 September 2004, members voted in favour of adopting revised Articles of Association. This allows the terms of office of Council members to be aligned with the financial year-end (30 April) rather than the calendar year.

The transitional arrangements will result in the involvement of the existing Council members and officers being extended by four months to 30 April 2005.

Council believes that governance and accountability will be improved by this change, linking the Chief Executive's responsibility for the ACT's performance over each financial year with the periods of office of the President and other officers. It also aligns the chairmanship of the Appointments, Remuneration and Audit Committee (ARAC) by the Immediate Past President with the financial year.

For the first time, members unable to attend the EGM in person were able to respond to the proposal by voting by proxy. The ACT received 461 proxy votes in total of which 449 were in favour and one against; 11 left the vote to the discretion of their appointed proxy. ■

On the move...

- **Stephen Billingham MCT**, previously Group Finance Director at WS Atkins plc, has joined British Energy Group plc as Finance Director.
- **Kevin Burke MCT** has been appointed Associate Director at Westpac Institutional Bank based in Auckland. He was formerly Assistant Treasurer at Allied Domecq.

- **Tony Chitty FCT** has joined Mace Limited as Treasury Manager. He previously worked at AgustaWestland as Head of Treasury, UK.
- **Gordon Drake AMCT**, previously Assistant Group Treasurer at Pearson plc, has joined Rocco Forte Hotels as Treasurer and Corporate Finance Manager.
- **Robin Easton MCT** has joined PACCAR Inc in Bellevue, Washington, as Assistant Treasurer. He previously worked at Applied Materials Inc in Santa Clara, California, as Director, Global Treasury Operations.
- **Paul Freeman MCT**, formerly Chief Administrative Officer at Dresdner Kleinwort Wasserstein, is now Global Head of Technology Infrastructure at Barclays Capital.
- **Graeme Gilbert AMCT**, formerly Manager, Commercial Banking at the Royal Bank of Scotland plc, has joined Cable & Wireless plc as Treasury Accountant.
- **Mary Keegan FCT** has joined HM Treasury as Managing Director, Government Financial Management. She was previously Chairman of the Accounting Standards Board.
- **Sacha Kenny MCT** has joined Regus Group plc as Group Treasurer. He previously worked for Vantico Ltd as Assistant Treasurer.
- **Andrew Notman MCT**, previously Group Treasurer at Atlas Capital Ltd, has joined Orbian Management Ltd as Treasurer.
- **David Prince AMCT**, previously Finance Director at Trenwick International, has joined Liberty Mutual Insurance Europe Ltd as Chief Financial Officer.
- **Paul Read MCT** has been appointed Director of Finance and Resources at Church Urban Fund. Previously he was European Treasurer at Avery Dennison.
- **Kevin Smith FCT** has been appointed Interim Treasury Manager at Courts plc. He was formerly the Assistant Treasurer at Amerada Hess International LLC.
- **Martin Wilkinson MCT**, formerly Treasurer of Banking & Operations at Amersham, has joined Bio-Sciences, GE Healthcare as Treasurer.

MEMBERS' DIRECTORY:

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

CAREERS:

For up-to-date treasury vacancies and careers articles log on to: **www.treasurers.org/careers/index.cfm**

CM services ready for a change

The provision of cash management (CM) services is at a watershed and treasurers should anticipate major changes as banks re-evaluate their business models to meet more complex customer demands.

This was the key message delivered at a recent Deutsche Bank briefing which predicted consolidation among CM banks to provide corporates with a more seamless service. When it comes to selecting a CM provider, meanwhile, treasurers are expected to look for more than just the management of payments – the provision of credit and access to markets are equally important features.

All these factors stem from current market trends such as a sustained historically low interest rate environment; pressure on transaction prices; more complex customer demands; increased regulatory requirements; and new European infrastructure initiatives.

To survive in this market, banks must revalidate their core competencies and focus on customer retention. They must also seek to provide a comprehensive service, good geographic reach and achieve the scale and critical mass required to justify high fixed costs of service provision, the briefing heard.

As a result, in future treasurers are likely to see their CM services provided by one of two types of bank – transaction banks or distribution banks. The former will offer a full end-to-end service, including customer sales and servicing, product management, processing and clearing or distribution, while the latter will focus on handling relationships with their corporate CM customers, but not maintain ownership of the full value chain.

Pressures

According to Deutsche Bank, market pressures will force banks which provide CM services to become either:

- Insourcers – banks who take over the after sales CM functions of smaller banks such as processing and clearing on their behalf, leaving the latter to focus on the customer relationship.
- Outsourcers – banks who outsource post CM-sales services to larger banks with greater capabilities.

"While sharing or cost reduction initiatives might look lucrative from a short-term perspective, both options are unsustainable long-term," said Deutsche Bank. "Ultimately, the decision for banks in the cash management business boils down to insourcing vs outsourcing."

"If you want to be in this business in the long-run, this demands scale," said Norbert Wanninger, Head of Global Cash Management at Deutsche Bank. "Banks must re-evaluate what to do and look at the business models they employ.

"Smaller banks that want to deliver the whole service must link up with someone else to embed the customer."

He added that Deutsche Bank will continue to provide the full end-to-end, global service, and is already insourcing CM functions from smaller banks.

This is evidenced in its recent agreement with Barclays Bank in which the latter is using Deutsche Bank's cash management infrastructure in Continental Europe (see *News*, page 12, *The Treasurer*, June). "This will service the needs of mid-sized UK corporates with cross-border needs," said Mr Wanninger. ■

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