IN BRIEF

■ Companies must look carefully at how they calculate the cost of debt and equity capital – or else risk misinforming the financial markets. This is the warning put forward in a new book, entitled ***The Real Cost of Capital***, which is based on 10 years of research by three experts in the subject.

Describing the cost of capital as the critical measure for investment decisions, the book looks at issues such as why companies do not raise more debt than equity when debt is so much cheaper. "There are crucial questions companies and individuals involved in finance need to be asking themselves about the cost of capital," said Tim Ogier, Partner at PricewaterhouseCoopers. Co-author John Rugman added that the book aims to fill knowledge gaps in the practical application of international principles and actually doing the calculations and making decisions.

The cost of debt capital, and the authors' findings, will be explored in the Corporate Finance pillar of *The Treasurer* next month.

■ **Metro-Goldwyn-Mayer Inc** (MGM) has gone live with a tailored global mass payment solution that has enabled it to bring its outsourced payments and disbursements activity for its home video business in-house. Offered by JPMorgan, the service includes a zero balance liquidity structure and an automated investment sweeping service. The bank's PaySource global payments technology allows a single payment file from MGM's Enterprise Resource Planning system to be transferred to it, facilitating worldwide disbursements.

■ International ratings agency **Fitch Ratings** has launched a report on the Basel II capital framework that provides guidance for investors and analysts to help them understand its new credit risk measures (see *Capitalising on Basel II*, page 47, June, *The Treasurer).* The ratings group said Basel II is a major step in regulation that will promote stronger risk management and disclosure practices within the banking industry. The framework was finalised in June.

■ Financial messaging network, **Society for Worldwide Interbank Financial Telecommunications** (SWIFT), is developing a commercial Trade Services Utility to help banks strengthen their influence in the corporate trade supply chain. The group has increased its focus from traditional collections and documentary credits to supporting the full range of supply chain services offered by banks. SWIFT has developed a central industry matching utility – the SwiftNet Trade Services Utility – for processing corporate trade documents. It is a matching and rules-based engine that compares and associates data elements from corporate documents, according to the group.

Bill showing shades of Sarbanes-Oxley

The Companies Bill, which aims to restore investor confidence in companies and the financial markets, has completed its second reading and Committee stage in the House of Commons, putting it on schedule to receive Royal Asset later this year.

And the Bill, which emanates from corporate financial scandals such as Enron and WorldCom, looks set to toughen up the UK's corporate governance regime once it is enacted. Some already believe that it smacks of the US' Sarbanes-Oxley (SOX) (see *No shelter from the storm,* page 16), by placing the onus on directors to be accountable for financial reporting.

"This really gives an impression of trying to create what SOX has done in the US," said one treasurer. The key concern for corporate senior management, he said, relates to sections in the Bill which give additional powers to auditors to obtain information from companies, and require directors to state that they have not withheld relevant information.

The Companies Bill has two main aims – to improve investor confidence in companies and financial markets, and promote social enterprise.

The first part of the Bill directly impacts the auditing profession and corporates. For auditors, one of the key aims is to strengthen the existing regulation system by imposing independent auditing standards, monitoring and disciplinary procedures on professional accountancy bodies.

For corporates, aside from increasing auditors' powers, the Bill strengthens the enforcement of the accounting and reporting requirements by allowing the Financial Reporting Review Panel (FRRP) to look at interim as well as annual accounts and reports. It also gives the FRRP powers to require information from companies it is investigating and allows the Inland Revenue to pass information on defective accounts to the FRRP.

When it comes to company investigations, the Bill calls for the provision of relevant information to company investigators and gives the latter the right to require entry and remain on the premises of a company being investigated. It also protects people, who voluntarily provide information, from breach of confidence claims.

The second part of the Bill provides for the establishment of a new corporate vehicle – 'the community interest company'. It aims to simplify establishing a business whose profits and assets are to be used for the benefit of the community.

ON SCHEDULE: The Companies Bill has passed the second reading and Committee stage at the House of Commons.

Measures in the Companies Bill are a direct result of recommendations from post-Enron reviews and reports such as the final report of the Co-ordinating Group on Audit and Accounting Issues. They complement reforms of the regulatory structure for the accountancy profession and recent changes made to the Combined Code of Practice (*Governance to go under FRC review*, page 08, September, *The Treasurer*). According to the Department of Trade and Industry, these changes were made to strengthen the role of non-executive directors and audit committees.

In addition to the time, cost and resources that will be required to deal with the increased oversight and reporting requirements of the Companies Bill, IT systems overhauls will also be likely.

"Any organisation will have a raft of existing infrastructure, such as reporting systems, very few of which will be up to scratch in terms of meeting the Companies Bill's requirements," said Mike Davis, Senior Research Analyst at the Butler Group, an IT research and advisory organisation. "In other words, very few can deliver the information within required timescales with any accuracy without a great deal of manual overheads." ■

Firms to feel impact of cut-down IAS 39

Changes to IAS 39, proposed at the Accounting Regulatory Committee (ARC) meeting early in September, look set to have a much broader impact on treasurers than originally thought – particularly when it comes to the suggested striking out of the Fair Value Option.

Corporates already geared up for the fuller version of IAS 39 may have to look at any possible effects these changes will have for them and make necessary alterations. The changes also threaten the long-awaited harmonisation with US Generally Accepted Accounting Principles (GAAP).

Essentially, in the proposed cut-down version of IAS 39 (see *Technical Update*, page 46), the Fair Value Option will not be fully available to companies and some of its hedging rules will be cut down to make them more flexible.

A Department of Trade and Industry (DTI) spokesman said that the standard should still come into effect – albeit possibly in its carved-out version – in time for the January 2005 deadline for implementation of the International Financial Reporting Standards. However, some market players are sceptical of this.

Craig Marks, Group Treasurer at Halfords Group, believes that a delay would be good for UK corporate treasurers, whose companies are having difficulty achieving compliance.

Marks said: "We would be happy to see it delayed. In most aspects, we think we are compliant, but the thing we are finding difficult is actually getting our auditors to look at it and sign off on what we have done so far. This has been very frustrating."

François Masquelier, Head of Corporate Finance and Treasury at RTL Group, said that the changes will have a significant impact for European corporates. "The biggest issue for a corporate treasurer is the divergence compared to US GAAP and FAS 133," he said. "We understood from the Securities and Exchange Commission and the European Commission that the goal was to converge towards a flexible position with one similar approach. And this is clearly moving in the other direction."

Masquelier said the good news is that, as a result of pressure from the market, the International Accounting Standards Board (IASB) has launched a working group to try to define what could be the most suitable amendments.

DIFFICULTIES: François Masquelier said that constant changes to IAS 39 make complying with the standard a complex issue.

The groups first meeting will take place in London in the autumn.

"However, I am still sceptical of a position that heads towards convergence with the US," said Masquelier. "At the very least, this maintains pressure on the IAS board to continue evaluating the standards."

One of the major issues for companies is the fact that IAS 39 is still an evolving standard. "We don't know today what will be the final version," said Masquelier. "Corporate treasurers have to apply the rules now but we have to try to keep it flexible enough to adjust to any changes that may come. This is especially difficult when it comes to technology – treasury management and other in-house systems. To comply with the standards while they are still evolving is very complex."

However, Keith Richardson, Group Treasurer at Tesco, added that his company is fully on track – both in terms of systems and procedures – to IAS 39 adoption. He said: "It will make no difference what Europe does in that the UK board has suggested that, if it is not adopted, it will adopt Financial Reporting Exposure Draft (FRED) 30, which is very similar to IAS 39."

The DTI spokesperson confirmed that the Accounting Standards Board (ASB) may take another look at FRED 30 if the cut-down version of IAS 39 goes through. "If Europe goes ahead, then the ASB will have to look at what it means for convergence with UK standards and may indeed choose to revisit FRED 30". ■

IN BRIEF

- The trend towards Canadian treasury management firms being snapped up by their rivals has continued with **Thomson Group**, the financial information company, buying Vancouver-based firm Selkirk Financial Technologies. Selkirk is well-known for its Treasury Manager TMS and, more recently, the Treasura web-based treasury solution. Earlier this year, another well-known TMS provider – Alterna Technologies of Alberta – was bought by financial systems provider Trema. Alterna is best known for its auros treasury management system.

- While all eyes will be on the results of IAS 39 deliberations by the International Accounting Standards Board, **Trema Group** has launched an IAS 32/39-enhanced hedge accounting module. The module also offers enhanced support for FAS 133/138. The company claims that this is the first comprehensive system available that deals with the increased hedge accounting burden of the standards.

- European clearing and settlement firm **Euroclear** has launched a straight-through, book-entry service for cross-border transactions that lets Euroclear Bank clients settle cross-border equity transactions on three Euronext markets and the London Stock Exchange, in a single location.

- **HSBC** has launched an online foreign exchange (FX) charting package that provides users with access to 15 major cross rates. The service, called fxcharting@hsbc, is hosted on the FXall website. Users are able to graph currency pairs over various periods and analyse them using market standard techniques. The service is free to all users of FXall.

FORTHCOMING EVENTS
REGIONAL GROUPS

6 October 2004 – **IAS 39**
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***

On the move...

Antony Barnes MCT, formerly Treasurer, International at Amersham plc, has been appointed Group Treasurer at GUS plc.

Andrew Binmore AMCT, previously Manager of Group Audit at HSBC Private Banking Holdings Suisse, has joined CCF as Directeur de missions, Group Audit France.

David Blair MCT has been appointed Group Treasurer at Nokia Corporation. He was previously Managing Director at Nokia Treasury, Asia, in Singapore and Program Director of the RosettaNet Payment Milestone Program.

Fiona Chan AMCT has joined Cable & Wireless plc as Assistant Group Treasurer. She was previously Treasury Manager at Rio Tinto plc.

Graeme Gillies MCT has been appointed Senior Manager, Corporate Banking at SanPaolo IMI Spa. Previously he was Vice President, TMTH Client Coverage at ABN AMRO Bank NV.

Dermot Hardy AMCT, previously Head of Banking at Bankgesellschaft Berlin plc, has joined Aareal Bank AG's Dublin branch as Head of Treasury.

Mike Holt AMCT has joined VP plc as Group Finance Director. He previously worked for Rolls-Royce plc as Finance Director of Purchasing.

Jeremy Jenkins AMCT has been appointed Manager of Business Planning and Development at Alcan Primary Metal Group. Previously he was Financial Analysis Manager at Pechiney Pacific Pty Ltd.

Shane Kelly AMCT, formerly Financial Controller UK & Ireland at COLT Telecom Group plc, has been appointed Regional Financial Controller at Multiplex Constructions (UK) Ltd.

Mark Nolan MCT, previously General Manager at Chubb Financial Products (Ireland) Ltd, has joined Quanta Europe Limited as Managing Director.

Andrew Pilsworth MCT has joined Boots Group plc as Head of Treasury Operations. He previously worked for InterContinental Hotels Group as Treasury Accounting Manager.

Rosemary Thorne FCT, Group Finance Director of Bradford & Bingley, joins the board of Cadbury Schweppes as a Non-executive Director. She is a member of the Financial Reporting Council and Financial Reporting Review Panel and chairs the Financial Reporting Committee of the Hundred Group of Finance Directors.

Gary Trehiou AMCT, has been appointed Finance Director at Dominion Fiduciary Services Group. He was previously Group Chief Accountant at BNP Paribas, Jersey.

MEMBERS' DIRECTORY: *Members' contact details are updated on* **www.treasurers.org**.

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

Currency risk tops the agenda

Managing foreign currency risks, the bank products that can help, and accounting for currency hedges were among the key topics discussed at the recent Managing Risk: Currency and Interest Rates conference, held in association with Fortis Bank.

Part of the ACT's Fundamental Treasury Topics – Treasury Strategies series, the conference, which was held at the University of Reading, attracted 60 delegates looking to enhance their levels of best treasury practice in this area.

The conference heard Brian Welch, Group Treasurer of Halcrow Group, discuss currency risks and the need for hedging, providing practical examples and also looking at hedging individual projects. Mike Bryant, a member of the ACT's managing council, examined interest rate risks, with an emphasis on why interest rates matter, the instruments available to hedge exposures, and accounting tax treatment.

The conference also heard Richard Hale, Treasury Manager at Fortis Bank, outline the range of instruments available to corporates from zero cost cylinders and barrier options to swaptions.

Sue Mainwaring, Director of Finance and Treasury Tax at PricewaterhouseCoopers, then briefed the delegates on the tax and accounting treatment of currency hedges, with reference to the complications of IAS 39 and FRED 30, which is still to come.

The key messages of the conference were to make sure you involve your tax, treasury and accounting colleagues, understand the options available so that you can explain them to your board, and have clear policies on what you can and cannot do.

For more information about future topics in the series, the Introduction to Treasury Management conference (27-28 January), and the ACT's symposium on IAS 39 (30 November), please visit **www.treasurers.org/events**.

Hong Kong Cert ICM course well attended

More than 20 people attended the third International Cash Management (Cert ICM) course at the Richard Ivey Business School in Hong Kong. The course, which involves five-days' tuition and six months of home study, is now a regular annual event, attracting students from China, Singapore, Sri Lanka and New Zealand as well as Hong Kong. The lead tutor is Michele Allman-Ward (pictured far right, second row up). The first European Cert ICM course took place in Brussels in August.

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