EUROPEAN ASSOCIATION
OF CORPORATE TREASURERS

Under embargo until 00.00 on Wednesday 6 January 2010

Press Release

Leading European companies unite against proposed derivatives regulation

More than 160 non-financial companies based in Europe (such as BAE Systems, Air France and Daimler) have signed a letter[1] to the Commissioners of the European Union to urge reconsideration of the proposals being drafted to regulate the derivatives market. The letter has been prepared by the *European Association of Corporate Treasurers* (EACT), which is a grouping of 20 national associations representing treasury and finance professionals from 19 countries in Europe.

Non-financial companies are well established as end-users of Over the Counter (OTC) derivatives to mitigate risks (such as in currencies, interest rates and commodities) arising routinely in their business. These companies were not involved in the extreme stress and systemic risk experienced in the financial sector, in response to which legislators on both sides of the Atlantic are rightly seeking to introduce a robust regulatory framework.

The EACT and end-users are concerned at the unintended consequences of the European Commission's proposals, which as published[2] may threaten economic recovery by draining companies' liquidity into mandatory collateralisation of contracts, reducing the amount of hedging (thereby increasing business risk) and raising costs for those prudently hedging their risks.

The European Commission is evaluating its approach and preparing for an impact assessment. The EACT and end-users are encouraging consideration of how the existing, mature use of OTC derivatives can be maintained, most likely through some form of explicit recognition that the regulatory proposals are not intended to extend to non-financial companies. The EACT is committed to supporting the European Commission's efforts.

Richard Raeburn, Chairman of the European Association of Corporate Treasurers, said:

"Major non-financial companies use OTC derivatives as a safe and prudent way to manage risk. The extent of concern across Europe over the current proposals is reflected in the number and range of companies that were keen to add their names to our letter to the European Union."

"I welcome the signs that the European Commission recognises the depth of this concern and is keen to enter into a constructive dialogue with the EACT and individual companies to fully understand the issues we are highlighting".

[1] Attached as an appendix to this press release
[2] COM(2009) 563 final, 20 October 2009 – available at http://ec.europa.eu/internal_market/financial-markets/derivatives/index_en.htm

Head office: 20, rue d'Athènes – F-75442 Paris Cedex 09 – France
Phone: +33 1 42 81 53 98 – Fax: +33 1 42 80 18 90 – E-mail: secretary@eact.eu – Website: www.eact.eu

For further information please contact:

Richard Raeburn
Chairman
European Association of Corporate Treasurers
+44 7802 966 665
chairman@eact.eu

Olivier Brissaud
European Affairs
European Association of Corporate Treasurers
+32 2 645 48 16
Olivier.brissaud@volkswagen.de

The text of the EACT's letter, including the names of the companies, is attached as an appendix. The letter will also be available on www.eact.eu

EUROPEAN ASSOCIATION
OF CORPORATE TREASURERS

6 January 2010

Ensuring efficient, safe and sound derivatives markets

Open letter to the Commissioners of the European Union

The undersigned companies representing all segments of Europe are supportive of the initiatives being taken in Europe and in the United States to improve transparency, accountability and stability in financial markets. However, as the regulatory framework is developed for the European Union we strongly urge you to preserve the ability of companies to manage their financial and market risk exposures by ensuring continued access to reasonably priced and customised over-the-counter (OTC) derivative products.

Non-financial companies, as end-users, use OTC derivatives to hedge the impact of movements in currencies, interest rates, commodity and other prices. This allows them to focus on their core purpose of building strong organisations, which through their growth create employment, investment and value for all stakeholders including taxpayers.

We are deeply concerned by some of the proposed reforms to the OTC derivatives market currently being considered, in that they will disadvantage many end users who rely on OTC derivatives to hedge underlying commercial exposures. Specifically, the intent to drive OTC derivative transactions into central clearing and onto exchanges will increase liquidity risk and funding costs through the requirement to post cash collateral, and reduce flexibility to match underlying commercial exposures.

Non-financial companies do not have the same ready access to liquidity that financial institutions have. This coupled with the requirement to post cash collateral based on unknown future financial market movements will place an excessive and inefficient burden on non-financial companies.

The economic effect of the requirement to provide cash collateral is to convert the primary risk for companies from that associated with counterparty exposure into liquidity risk. Non-financial companies are highly experienced in managing their counterparty risk with financial institutions; managing liquidity risk in collateral requirements is substantially more difficult for them and is less efficient.

If the proposed reforms currently being considered by the European Commission are not further refined to take account of the creation of liquidity risk throughout European business the adverse effect is likely to be twofold: a reduction in the amount of funds allocated to productive investment in the economy (as liquidity must be safeguarded to support uncertain future collateral calls); and less use of prudent hedging to eliminate market risks, with a resulting increase in uncertainty and volatility in the real economy of Europe.

We are committed to working with the European Commission to propose appropriate modifications to the proposals, in a form that does not dilute the overriding requirement (which we support) to tackle the causes of systemic risk in the operations of financial institutions. As the proposals move through the Commission and Parliament we hope that you will seek to ensure that they take proper account of the threat they pose, in their current form, to economic activity in Europe and to the Lisbon agenda to make the European Union the most dynamic and competitive knowledge-based economy in the world.

We look forward to working with you to promote financial system stability and transparency.

Richard Raeburn
Chairman

EUROPEAN ASSOCIATION OF CORPORATE TREASURERS

This letter is supported by the member associations of the EACT and has been signed by the following companies:

ABB
Ahlstrom Corporation
Air France
Aliaxis Group
AMAG Austria Metall
Anglo American
ArcelorMittal
Areva
Asco Industries
ASML
Aviapartner Holding
BAE Systems
Balfour Beatty
Bayer
Beiersdorf
Berlin-Chemie
BG Group
Bilfinger Berger
British Airways
British American Tobacco
British Sky Broadcasting Group
BWT
Cable & Wireless
Cadogan Estates
Cargolux
Carmeuse Holding
Celesio
CGS
Charter International
Claas
CLT-UFA
Cofinimmo
Consolis
Constantia Packaging
Daimler
EADS
EDF
Egger Holzwerkstoffe
Elior
EON
ESB
Etex Group
Etimine
Eurocash
Experian
Faurecia
FirstGroup
Firth Rixson
GKN
GlaxoSmithKline
Goldrush
Greencore Group
Greif
Grosvenor Group
Häfele
Hamon
Haniel
Heijmans
Heineken
Hochtief
IMI
Imperial Tobacco Group
Informa
Irish Continental Group
Johnson Matthey
K+S
Kellogg Europe Trading
Kion Group
KLM Royal Dutch Airlines
Krka
KUKA
Kwizda Holding

Ladbrokes
Lafarge
Lagardere
Liebherr-Aerospace
Liebherr-Emtec
Liebherr-Werk Ehingen
Linde
Logica
Lufthansa
LVMH
MAN SE
Marks and Spencer
Mediq
Meggitt
Merck
Miele
Mitchells & Butlers
National Grid
NATS Holdings
Nokia
Nokia Siemens Networks
NV Bekaert
NXP Semiconductors
ÖBB-Holding
OBI Group Holding
Oxea Holding
Palfinger
Pearson
Pentland Group
Peter Cremer Holding
Petrol
Porsche Holding
PPR
Provimi
Renault
Rexam
RHI
Robert Bosch
Rolls-Royce
Royal Ahold
Royal BAM Group
Royal Boskalis Westminster
Royal Cosun
Royal Dutch Shell
RTL Group
RWE
Sanofi-Aventis
SAP
Sappi International
Schott
Schuitema
Scottish and Southern Energy
Severn Trent
Shanks Group
SHV Holdings
Siemens
Skanska
Smith & Nephew
Solvay
Spectris
Sportingbet
Sun Chemical Group
Talum
Technip
Telefónica
Tele-Fonika Kable
Tesco
Thales
The Capita Group
The Rocco Forte Collection
The Weir Group
Thomas Cook Group
Tinfos Nizi
TNT
Trelleborg
Tui Travel

EUROPEAN ASSOCIATION OF CORPORATE TREASURERS

Umicore
United Utilities Group
Vandemoortele
Veba
Verlagsgruppe Georg von Holtzbrinck
VGP
Vinci
Volkswagen
VT Group
Wabco Holdings
Wacker Chemie
Wienerberger
WILO
Wolters Kluwer
Wooninvesteringsfonds
Zenitel

Head office: 20, rue d'Athènes – F-75442 Paris Cedex 09 – France
Phone: +33 1 42 81 53 98 – Fax: +33 1 42 80 18 90 – E-mail: secretary@eact.eu – Website: www.eact.eu