ACT digest

Key messages

■ Supply Chain Finance
The ACT has published a report on supply chain finance from a working group it chaired. Buyer-driven receivable programmes were seen as a useful technique for making cost-effective finance available to suppliers finding funding scarce, but understanding of such products was poor. The ACT is working with the Department for Business, Innovation and Skills to follow up on the report and help finance recovery. Download the report at **www.treasurers.org/scf**

Visit **www.treasurers.org/technical** for the latest ACT policy and technical updates.

Events

■ ACTME Annual Conference, Workshop and Gala Dinner, 13 October, Dubai
With a full day's programme of speakers including Sultan Bin Nasser Al Suwaidi, governor of the Central Bank of the UAE, and Yuvraj Narayan, CFO of DP World, the ACTME Annual Conference is an opportunity to grow the treasury network in the region further. A pre-conference workshop on treasury issues sets the scene and the event will conclude with the Gala Dinner and the ACTME Treasury Awards.

For more information on ACT Middle East, visit **www.actmiddleeast.org**

■ ACT Corporate Funding Conference: Financing the Future, 2 November, Manchester
This half-day conference will provide a comprehensive view of corporate funding in the "new normal". Hear from senior representatives from the corporate, banking and investment world on topics including:

- latest developments and emerging trends in the debt and equity markets;
- evaluating new investors and alternative methods of funding;
- key regulatory changes; and
- the impact of volatile markets on the corporate balance sheet

www.treasurers.org/funding10

■ ACT Annual Dinner, 10 November, London
There are only a few places remaining at our key social event, which takes place at the Grosvenor Hotel, London. This year's guest speaker is Alastair Campbell.

Credit insurance turns the corner

European buyers of trade credit insurance are seeing the most favourable conditions in over two years. According to insurance broker Marsh, new insurance capacity, greater competition for business among insurers and improved risk management have been positive developments for businesses across most of Europe in 2010, following two extremely challenging years.

Smith: rates falling or stabilising

The latest data for 2010 suggests trade credit insurance rates are reducing in France, Germany, Italy and the UK. Rates are stable or rising minimally in Belgium, Denmark, Portugal and the Netherlands. Increases have been recorded in Greece, Portugal and Spain. Trade credit cover is also easier to procure, with insurers no longer taking industry-wide underwriting decisions.

Tim Smith, leader of Marsh's trade credit practice in Europe, the Middle East and Africa (EMEA), said: "The trade credit insurance market has been transformed in 2010, with rates falling or stabilising in most key European markets. Following the recession and the widespread cancellation of cover in certain high-risk industry sectors, insurers are now writing more business and deciding cover on a company-by-company basis."

According to Marsh, insurers have developed more sophisticated risk assessment techniques, so companies are more willing to share financial information with them. This aids insurance procurement and helps companies to obtain better terms.

"Demand for trade credit insurance remains strong," added Smith. "Entry to the market by insurers new to the sector has increased capacity and competition for business among trade credit insurers. For companies seeking trade credit insurance, the outlook for the remainder of the year and into 2011 is very encouraging, especially for organisations with strong credit management procedures." ■

Time to strike a deal with taxman

HMRC's decision to take a less aggressive approach to resolving tax disputes means businesses with outstanding tax issues might now be able to negotiate a sensible settlement with the taxman.

Law firm Reynolds Porter Chamberlain said the permanent secretary for tax at HMRC, Dave Hartnett, recently announced a softening of HMRC's inflexible litigation and settlement strategy, which was introduced in 2007.

Adam Craggs, partner in RPC's tax dispute resolution team, said: "The taxman has decided that the priority is to bring in cash quickly by engaging in sensible negotiation."

The litigation and settlement strategy was highly resource-intensive and Craggs said that HMRC could no longer sustain it.

He added: "HMRC's Solicitor's Office has been put under a great deal of strain and has been operating at full capacity for some time now. HMRC does not have available to it the budget necessary to recruit sufficient numbers of lawyers to sustain such an aggressive approach.

"This less combative approach is as much a response to HMRC's inability to keep up with the workload generated by the litigation and settlement strategy as it is a pragmatic decision to increase the tax yield in the short term.

"By negotiating on claims, HMRC may well increase its tax take in the short term, but it raises questions about the long-term impact of such a change in strategy on the Treasury's coffers.

"There is now an excellent opportunity for businesses in dispute with the Revenue to reach a sensible agreement that both sides can be happy with."

Gloom deepens for UK pension funds

Private sector final salary liabilities have hit £1.2 trillion as market conditions continue to deteriorate for the UK's final salary pension schemes. According to the Aon200 index, which tracks approximately half of the UK's private sector pension schemes, the total private sector final salary pension liability has increased 20% since the landmark £1 trillion figure was reached in August 2009.

The main cause of the schemes' greater liabilities is the fall in the yield on government securities. Lower yields are a product of the weak and slowing world economy, very loose monetary policy as credit conditions remain tight, and the flight to safety effect from abroad because of problems in the euro zone.

The yield on government bonds is used as a benchmark for assessing pension scheme liabilities. The 20-year government gilt yield has dropped to 3.76%, a level it has sunk to only once before (March 2009) during the last 10 years.

During March 2009, however, the impact was softened by wide AA credit spreads (over 2.5% compared with 1.1% now), whereas the full impact of the tough government yield is now reflected in pension scheme liabilities.

Hurd: significant financial risk

Those schemes that have matched their liability exposure by investing substantially in government securities and swaps will have protected themselves from the recent market deterioration, but a large majority of schemes remain exposed. The current market conditions act as a timely reminder to pension scheme stakeholders of the need to derisk when the opportunity arises.

The Aon200 deficit of £97bn at 31 August 2010 compares with £74bn at the end of July 2010 and £78bn at the end of August 2009.

Marcus Hurd, head of corporate solutions at Aon Consulting, said: "Market conditions have never been as tough as they are today for final salary pension schemes. Traditional scheme investment strategies are struggling to keep pace in rapidly moving markets.

"Pension scheme liabilities at this level pose a significant financial risk to UK businesses at a time when there are real fears that market conditions could deteriorate further. Rapidly moving markets emphasise the need for adaptable investment strategies and the need to reduce risk where possible when the opportunity arises." ■

Firms explore leasing as credit cost rises

Two-thirds of UK firms expect credit costs to rise in 2010 although French and German businesses are less pessimistic.

A study by Siemens Financial Services found that 65% of companies in the UK expected the cost of credit to rise in 2010. In Germany the figure was 52% and in France 47%.

Credit availability also remains tight, with predictions of further credit limit reductions in 2010 expected by 49% of UK companies (34% Germany, 45% France).

Bank credit is expected to become more restricted and costlier. The research found an increasing and long-term interest among businesses in alternative finance solutions. In 2010, 53% of UK, German and French companies have been exploring non-bank credit financing methods.

David Martin, head of sales at Siemens Financial Services in the UK, said: "It is clear that businesses' financial mindset is evolving in the current economic climate, with proactive consideration of financial alternatives."

For lease accounting, see Lease Resistance, p14.

Defined benefit pension schemes in rapid redesign

Companies making changes to defined benefit (DB) schemes in 2010 are drastically cutting back on their contribution rates, according to a survey by Mercer. The survey indicated that "traditional" DB schemes would continue to evolve, with a third of respondents considering making changes to their DB plans.

Mercer analysed responses from multinational companies in the US, UK, France, Germany, Italy and the Benelux. Only 14% of the 220 respondents had DB schemes open to future accrual. Two-fifths (38%) of the schemes were closed to future accrual and 48% were closed to new entrants. In the years between 2002 and 2005, 50% of DB plans were closed to new members, and 61% of DB plans have been closed for future accrual over the past two years.

Chris Sheppard, head of Mercer's scheme design group, said: "The DB plan as we have known it is heading towards extinction but new species are appearing as companies try to adapt and preserve what is a very highly valued employee benefit and staff retention tool.

"A notable change has been the drop in average size of employer contribution. This reduces the cost of schemes. However, with employee contribution rates broadly the same, less company contribution has a detrimental impact on an employee's retirement, so good member communication is vital."

Nearly half of respondents (49%) said they had made changes to their DB plan in the past two years. Most (52%) had closed their scheme to future accrual, while 25% had increased their member contributions, and 11% had closed to new entrants. Other tactics included reducing pensions rises or revaluations (9%), moving to a career average scheme (8%), reducing the accrual rate (8%), raising the normal retirement age, capping or limiting increases to pensionable salaries, reducing the level of future pension increases or revaluations to deferred pensions and changing early retirement terms.

Of the 33% considering making changes to their DB plan in the near future, 15% said the decision had been finalised, 50% that the decision was provisional, and 35% still had to decide. The most popular moves under consideration were closing to future accrual (75%) and reducing the accrual rate (12%).

Global payments service goes online

Earthport, the provider of cross-border electronic payment services, has made its payments services available through epDirect.

The epDirect service provides a simple-to-use online interface enabling payments to be made to more than 200 countries in the world for a flat per-transaction fee.

The initiative extends Earthport's payments services through the addition of browser-based access. The company said the service was best suited to small-to-medium size businesses, whose cross-border transfers tend to be of lower value, and for which other payments services are often not cost-effective or suitable.

The service operates through bank accounts and to banking standards and therefore helps to grow the market for bank-based electronic payments.

Transfers via epDirect are funded directly from the client's own bank account.

Information disclosure store opens its doors

The UK Listing Authority's National Storage Mechanism (NSM) is now up and running and companies should note the new procedures for submitting accounts and any information under the disclosure and transparency rules.

Under the Transparency Directive all EU member states must set up a mechanism for storing regulated corporate information with easy access for end-users.

Morningstar, which acquired data, media and investor relations business Hemscott two years ago, was appointed to provide the UK's NSM.

Until 31 August 2010 listed companies had to send the FSA (as the UK Listing Authority) two hard copies of various documents, such as annual accounts, prospectuses, etc. These were made publicly available via a document viewing facility, quaintly accessible from a terminal behind the FSA reception desk.

From 1 September issuers have been required to forward all documents to Morningstar via email or the upload facility.

All regulatory announcements that have to be published via a regulatory information service (RIS) will be automatically received by Morningstar via regulatory feeds and stored within the NSM. Issuers should ensure they employ the correct headline code and category when making a regulatory announcement.

It is important for issuers to continue to make announcements via an RIS since documents appearing on the NSM do not fulfil an issuer's obligation to publish information via an RIS.

All prospectuses approved by the UK Listing Authority will become accessible by users of the NSM directly via the internet.

For access to the National Storage Mechanism, go to **www.hemscott.com/nsm.do** ■

Reducing the risk on returns

PENSION SCHEMES CAN REDUCE FUNDING VOLATILITY BY USING ABSOLUTE RETURN FUNDS TO ALIGN THEIR ASSETS AND LIABILITIES MORE CLOSELY.

An increasing number of pension schemes are implementing liability-driven investing solutions in order to reduce the volatility in their funding positions through aligning their assets more closely to their liabilities. This has typically led to a review of both asset and liability risks and a reassessment of the investment strategy.

Where pension schemes have implemented liability-driven investment strategies, the underlying assets will be benchmarked against a pension scheme's specific liabilities and will thus need to generate at least a cash equivalent return. This, combined with the significant volatility seen in certain asset classes over the last few years, has seen a growing interest in absolute return strategies.

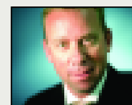
In simple terms, an absolute return fund aims to generate a positive return in excess of cash (usually defined as three-month Libor) in all market conditions while providing downside protection in falling markets. This contrasts with a traditional index benchmark approach, which might, for example, gain 6% one year and then fall 10% the next.

It was the introduction of the UCITS III Directive in 2003 that gave rise to the growth of absolute return funds. Essentially this directive allowed European regulated funds to use derivatives to generate investment returns and not just for the purposes of efficient portfolio management. Embracing such powers has meant that managers can capture positive returns from both falling and rising markets.

At Insight we've been successfully managing absolute return strategies since 1998 and are one of the leading adopters of the flexibility afforded by UCITS III. The range now consists of the Absolute Insight Fund, a multi-strategy fund, and four further strategies offering exposure to equity-like returns through a market-neutral strategy and three fixed-income solutions: emerging market debt, specialist credit and currency.

Reducing the volatility within pension scheme assets can provide sponsors with greater confidence in planning contribution levels. Absolute return funds can achieve this as well as being able to provide diversification benefits and a better source of return when held alongside index benchmarked strategies.

To discuss our capability in managing absolute returns, contact Mark Ashley.



Mark Ashley is institutional business development director at Insight Investment.

Call 020 7321 1547 or visit **www.insightinvestment.com**