e-treasurer
Irish Association of Corporate Treasurers

e-treasurer - the eZine of the Irish Association of Corporate Treasurers April 2005

Welcome to the first edition of e-treasurer.

As part of our plan to drive the agenda for the Association forward, we aim in this e-zine to cover topics that are relevant to today's treasury professional. We hope to deliver a mix of interesting and informative items and to promote the Association's agenda in the three editions planned for 2005. In this edition we update you on recent changes in the Association and its activities and inform you about an exciting new treasury-related product that is likely to become of increasing importance to Irish companies, Read More >

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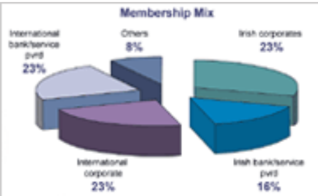

Directors' Compliance Statements

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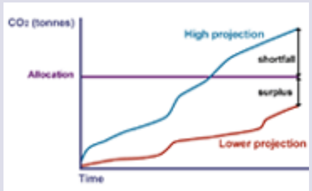

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In this edition we update you on recent changes in the Association and its activities and inform you about an exciting new treasury-related product that is likely to become of increasing importance to Irish companies, covering:

- information on the current membership of the Association, changes to membership rules and the main theme's that will drive the Association's activities in 2005
- an update of the latest situation regarding Directors' Compliance Statements prepared by McCann Fitzgerald, Solicitors
- information about our new website, its features and how we hope that it will work during the year
- a short note about the Graduate Certificate in Corporate Treasury course run by DCU Business School in conjunction with the IACT and an extract from Hil's diary
- an outline of the work that the IACT is pursuing on the European and international scenes and how we intend to progress this
- an article on issues relating to carbon emissions. Paul Harris at Bank of Ireland Global Markets addresses the implications of the EU Emissions Trading Scheme on Irish companies
- finally, a section of ‘dates for the diary section' that will encourage members to use the e-treasurer more effectively in the future as a form of networking with other Irish treasury professionals.

2004 was a challenging year for the Association, but the Committee is confident that it has met those challenges and that 2005 will be a transformational year for the Association. We hope that e-treasurer will be an important bridge between the Association and its members and, as a Committee, we want to try to encourage communication with the members and equally to have feedback in order to empower the Association. Feedback is welcome to info@treasurers.ie

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The IACT in 2005

2004 was a year of stabilisation for the Association. Following on from the Strategic Review completed by the Committee during 2004, there were a number of key decisions made :

- membership would be opened to all treasury professionals in order to reflect the reality of the marketplace and allow the Association keep pace with developments in the treasury arena . A renewed emphasis would be placed on the membership and the relationship that exists between the members and the Association;

- the focus of the Association for each year would be defined through the establishment of “themes” which would direct the Association’s activities for that year;
- the Committee would be restructured and specific roles allocated to Committee members.

Four themes were identified for 2005:

- The changing role of the corporate treasurer – a treasurer needs to possess not only basic financial skills but needs to be a facilitator in an organisation that can deliver tangible benefits to the overall strategy. Softer skills, such as presentation, are also coming to the fore ;
- The changes in accounting standards and taxation – IAS world is upon us. We want to keep members up-to-date on the latest developments during 2005 ;
- Delivering best practice in treasury and corporate governance – this is an evolving theme that we expect to continue to focus on through 2006 as the emphasis not only on regulation, but also on ethics, becomes increasingly important ; and
- Being the voice of the corporate treasurer - we need to become a voice for a profession in order to reinforce our relevance and integrate the members opinions and views at the highest possible level of policy and decision making within Ireland, through the network of European associations at EU level and internationally.

During 2005, the activities of the Association will revolve around these themes and we will endeavour to attempt to address them from different and varied perspectives.

Directors' Compliance Statements - all change. Perhaps.

by David Byers, Paul Heffernan and Peter Osborne, McCann FitzGerald

The Companies (Auditing and Accounting) Act 2003 placed on the statute book an obligation on the directors of most significant Irish companies to prepare statements regarding their awareness of the legal framework within which their company operates and confirming that their company has in place appropriate policies, procedures and testing arrangements to give a reasonable assurance of the company's compliance with the legal obligations that set the legal framework of the company's business. The new obligation has not yet been commenced although a commencement date was expected to be announced in July 2005. That has now changed.

On 21 April the Taoiseach announced that, following representations from interested parties, he would refer the directors' compliance statement provision to the Company Law Review Group for its consideration. The Taoiseach has asked that a Regulatory Impact Analysis be carried out, and has requested that the review is to be carried out by July this year.

To quote the press release, the Taoiseach emphasised that there was no question that the main thrust of the directors' compliance statement provision would be removed: "Our determination to ensure the highest standards of governance in business remains firm. We cannot go back; we cannot be faced again with the type of practices which gave rise to the PAC Dirt Inquiry and which led to this legislation. Our aim now must be to achieve our original intention of ensuring that directors accept their proper responsibilities, but if possible, in a more deft way."

It seems likely that the review process will result in amendments to the compliance statement obligation, before it is brought into force. To speculate, the CLRG may recommend that the legislation be amended to remove a greater number of (or all) private limited companies from the scope of the provision; to allow groups of companies to report on a consolidated basis; and, possibly, to dilute generally the obligation (the CLRG's terms of reference indicate that one of the principal aims of the legislation is to ensure "the integrity of the corporation's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place..." which could be said to shift the emphasis of the legislation somewhat).

In consequence of this development, the timing of the obligation is now uncertain. Whether or not the legislation is amended, it seems unlikely that the obligation will be brought into force before 2006. In his statement the Taoiseach noted: "I know that the business community want an appropriate lead-in time to enforcement of the provisions and I know Minister Ahern is open to this and that work is ongoing in terms of detailed guidance."

Some companies are choosing to deal with this uncertainty by postponing further development of compliance systems that are designed to meet the needs of the 2003 Companies Act as it is presently structured. Companies in the financial services sector are conscious of the analogous obligations that stem from IFSRA powers under the Central Bank Acts and which appear set to come into force irrespective of what happens with the obligation under the Companies Acts; many such financial services companies are proceeding with their compliance programmes for those wider reasons. However, it remains the case that every company remains under obligations relating to good corporate governance and legal and regulatory compliance generally.

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Carbon emissions : a primer

By Paul J. Harris, Energy Specialist, Bank of Ireland Global Markets

Kyoto outline
Since January of this year, nearly 100 Irish companies are subject to the EU Emissions Trading Scheme (EUETS). This system is Europe's response to the Kyoto Protocol - the global agreement to reduce worldwide carbon dioxide (CO_2) emissions. Since the 1997 accord Europe has taken the lead in establishing a viable system to reduce emissions ; the 'Cap and Trade' system now in place, designed to reduce emissions to 8% below 1990 levels, is being heralded as a global blueprint.

Under the EUETS, each Member State is responsible for formulating a National Allocation Plan (NAP) which distributes allowances across industries deemed to generate the bulk of harmful carbon emissions. Responsibility for the implementation of the NAP in Ireland lies with the Environmental Protection Agency (EPA).

Under the first phase (2005-07) the targeted industries are broadly categorized as :

- energy activities
- cement and lime
- ceramics, bricks
- glass
- mineral oil refineries ; and
- pulp and paper.

In the second phase (2008-12), individual Member States can elect to include further sectors and the current debate centres around the potential inclusion of the aviation, transport and chemical industries.

At the end of each December, the company will calculate the CO_2 emissions created. They will have until the following 31st March to have these calculations independently verified and certified. On 1st April they are obliged to surrender the requisite allowances to cover their total emissions.

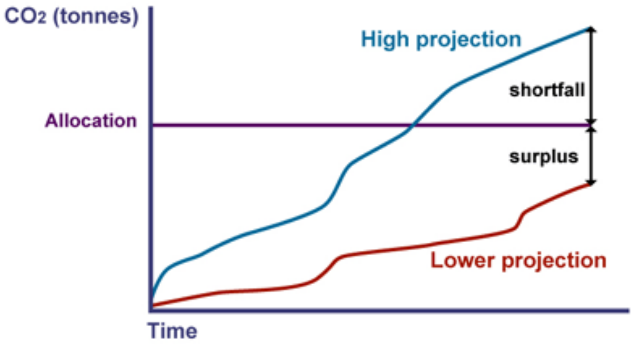
Russia and Japan, amongst other countries, are keen to develop linkage with the EUETS, giving the emissions market huge potential to become a key factor for all businesses in the not too distant future.

EUETS impact on Irish corporates This potential is borne out of the whole rationale of the Scheme, namely that it gives emissions reductions a value whilst attributing a cost to extra allowances required.

In business terms the impact is to increase risk to the company in both operational and market terms ; operational since the company has to manage allocated allowances versus variable emission levels and market since the price of carbon allowances is determined by market forces. These market forces have seen the price of an allowance in Europe (entitling the holder to emit 1 tonne of CO_2) rise from €6.65 in January 2005 to over €11 at the start of March 2005 - a 65% increase. Market volumes have risen sharply with over 60mt/CO_2 trading in January alone. When one considers that only 10mt/CO_2 traded in two years of grey market activity (2003 - 2004), the increasing importance of this market to affected companies is apparent.

Given that managing emissions exposure is a voyage into uncharted waters, it is pertinent to examine the factors that will determine a prudent approach.

When a company receives notification from the EPA it will need to determine its emissions-to-cap ratio by dividing its projected emissions by its allocation. A number greater than 1 reflects a company in surplus, and a number less than one, a company in deficit. The company can project its likely requirement by reference to data from previous periods. By plotting high and low emission projections versus the given allocation, the company can achieve a sense of what its likely requirement will be (Figure 1).



Having determined its prospective position, the company has three basic alternatives:

- Buy (sell) allowances immediately to cover any shortfall (surplus). This can be done in the open market through relationship banks or brokers and will typically suit the larger, active players such as energy companies who will tend to trade their exposure, which will be subject to intra-period variation.
- Wait until after the verification to cover any shortage. This will appeal to the smaller player content simply to treat exposure as a compliance issue. The problem with this approach is that the company will remain exposed to market risk in connection with the price of allowances. Intuitively, given that the market is structurally short, the cost of meeting the obligation may be significantly higher than an early, proactive strategy.
- Do nothing. This approach is fraught with difficulties. Failure to meet the emissions cap will result in the levy of a €40t/CO2 fine and reduction of the following period's emission allowance to the extent of the shortfall. When one considers that the proposed fine for the second phase is €100t/CO2, the rolling forward of a shortfall is a ‘head-in-the sand' strategy that will ultimately result in excessive and unnecessary expense.

In practice, the optimum approach is probably a mix of the first two strategies, depending on both emission forecasting accuracy and the emissions-to-cap ratio. Regardless of the size of exposure all companies must develop a coherent strategy based on these factors coupled with a comprehensive understanding of the emissions market.

Given that the market is still very much in its infancy, companies may find it difficult to get to grips with a seemingly endless, almost daily, set of market developments or trading 'firsts'. Reliance on an informed relationship bank will be critical in the coming months as the first surrender deadline looms.

Price determinants
What can be said with certainty is that price volatility will continue to rise steadily. Price determinants can be broadly grouped under three headings: weather, fuel and economic factors.

Weather is key given the dominance of the energy companies in the EUETS. Increased energy demand, associated with adverse weather conditions, is typically catered for by increasing coal consumption (an emissions-rich fuel source). Poor weather will inevitably result in greater allowance demand from energy companies. Additionally, lower rainfall levels may impact the ability of power companies to use hydro-electric power generation making dependence on less ‘green', more emissions-hungry energy sources necessary.

Fuel prices are significant drivers of emissions allowance prices. This year as Brent Crude has risen; carbon indices have risen in concert. This reflects the diversification of fuel sources as energy prices command a premium. If one accepts current market consensus that the new ‘floor' for crude is $40, then by extension, the floor for a ton of carbon emissions is approximately €8.50.

Economic factors will colour demand and sentiment – since the level of emissions is linked directly to economic activity, any downturn will be reflected in an easing in price pressures. By the same token, increased industrial output will tighten the market.

Hedging on the horizon
The establishment of emissions futures exchanges will provide a useful tool with which to manage exposure. The European Climate Exchange (ECX) in conjunction with London's IPE launched the first contract in mid-March. The futures market opens up the possibility of hedging carbon emissions prices throughout the whole first -and second - phases since the whole suite of derivatives – caps, collars, floors and swaps – can be constructed and priced through the futures market. One issue here is that the minimum futures size will be 1000t/CO2 making direct market access to smaller players problematic. The onus will be on relationship banks to tailor products to accommodate companies with a sub-1000t/CO2 requirement.

Conclusion
In summary, the EUETS will impact Irish companies significantly. Companies with both long and short allowance positions must devise appropriate policies with which to manage their asset/liability position. Given the dynamic nature of this nascent market, adopting a ‘wait-and-see' approach is an inadequate response to the operational and market risks to which the company is exposed.

As the market develops in terms of both physical and futures players, efficient hedges will quickly become available. Should you require any further information on the EUETS, or wish to discuss your company's exposure to the carbon markets, please contact Paul J. Harris directly on 01 609 3246.

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International corner

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Jimmy's history with these organisations and experience gives the IACT a unique platform on which to try to ensure that the interests of the members are represented at the European and international levels.

IGTA (www.igta.org)
The current IGTA programme addresses topics such as education (we are seeking an endorsement for the IACT/DCU Graduate Certificate course from the IGTA) and broader issues of importance to the operation of the corporates within the financial market such as the oversight of rating agencies, international payments and accounting developments.

There is a proposal that the 10th anniversary of the IGTA - which was founded in Dublin in 1995 - will hold their annual meeting in Dublin in 2006.

EACT (www.eact-group.com)
The EACT has been a very important forum for the IACT over the past years and Ireland's involvement has become increasingly relevant with the appointment, last year, of Charlie McCreevy as the EU's Internal Markets Commissioner.

The EACT was largely focused on the Eurozone countries in the past, but, with the 2004 enlargement, it was proposed to expand to allow non-EU member countries to join the EACT. The ACT, (UK) and the Czech and Slovak Associations will be admitted to membership at the EACT's May board meeting. The EACT also has a representative on an IASB working group examining the accounting for financial instruments.

The EACT has become an increasingly visible presence on the European stage and has made several representations to the EU Commission on behalf of its member Associations. The current agenda covers items such as the Single European Payments Area (SEPA), accounting standards and the implementation of the EU's proposed Services Directive.

The EACT is an increasingly important forum for the IACT and we plan to try to ensure that the voice of Irish corporates is heard around the table at the EACT meetings and the various committees on which the EACT is represented.

We encourage members to view these websites and we plan to keep members in touch with the key items arising at these Associations

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Dates for the diary

The following IACT events are scheduled :

5th May the IACT has organised a breakfast forum, to be hosted by Bank of Ireland Corporate entitled "Insights on Corporate Funding and Lending". The venue is the Clarion Hotel commencing 7.30am

late May an IACT Masterclass : personal effectiveness and time management. The date and venue will be confirmed

mid June a 'Back to the Future' forum. A roundtable forum examining the future opportunities for international treasury in Ireland post-IFSC. The date and venue will be confirmed. We have posted an item on the Bulletin Board on www.treasurers.ie to initiate some preliminary thoughts.

8th July the IACT golf day will be held at Dun Laoighaire Golf Club. Details will be posted to members on the treasurers.ie.

On March 15th 2005, the Irish Association of Corporate Treasurers and Cork Society of Chartered Accountants hosted a evening lecture (sponsored by Ulster Bank Financial Markets) titled "Treasury Risk Management - Theory and Practice"

Pictured on the joint Cork event (from left to right) were Patrick King, President of IACT (Jurys Doyle Group), Brendan Lenihan CSCA (Brendan Lenihan & Associates, Fiona Kingston, Treasury Sales, UBFM, Niall Dunne, Financial Markets Strategist, UBFM and John Finn, IACT, Treasury Solutions Limited.

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DCU course and Hil's diary

The IACT, in conjunction with DCU Business School, has been running its successful Graduate Certificate in Corporate Treasury since 1997. Each course is run over one year with three semesters held on a weekday evening and Saturday morning at the DCU campus in Glasnevin.

The course covers five core subjects - corporate financial management, funding, international financial markets, cash and working capital management and risk management - with exams at the end of each semester and concludes with a case study. More details can be found on our website.

The course director is Dr. Ruchira Sharma at DCU Business School.

Hil's diary

Every Tuesday evening, after a heavy day at work, I face into lectures from 6.30 to 9.00. At times it is difficult to motivate yourself to go but when you arrive at DCU and settle into the lecture, you realise "it was all in the head". Some might think I'm crazy completing this course having already qualified as a management accountant, but following a move into treasury within Dublin Airport Authority (formerly Aer Rianta), I thought it best if I acquired a deeper academic knowledge of treasury activities in order to help me advance in my career. I would be lying if I said it wasn't tough (from a time point of view) but in life I guess you must put the work in to reap the rewards. All I'm fit for on Tuesday evening after the lecture is a strong cup of tea, catch up the day's news (especially sport) and then it's straight to bed. If I were a full-time student, perhaps it would be lectures, then straight into the student bar (or sometimes no lectures and straight into the bar!!).

During the week, between work, hurling training and social commitments!, I might have to spend some time preparing for the half-day lecture on Saturday, getting an assignment in, or corresponding with fellow students on the course. That's another angle to the course I like – networking with my fellow colleagues. Not alone do you learn from the lectures but its interesting to hear what my colleagues work at, whether its for an international bank or a small corporate, everyone has a different story and you can definitely get ideas and learn from them.

Saturday morning comes around very quickly. Some might think that Saturday morning is a much harder day to attend lectures but once I'm out of the bed, it's not an issue - mind you, it is if you've had a few the night before!!). I can go as far as saying that I like attending Saturday lectures in the second semester because treasury specialists from banks, consulting firms, large corporates are invited each week to guest lecture the class. I find it very interesting to hear how treasury and risk management operates in their environments and also it provides the class with many business contacts for the future.

Now that the academic year draws to a close, I'm glad to see the weather improving and the daylight lengthening. After a busy Saturday morning in DCU I can look forward to playing a few holes of golf or getting out and hitting a sliotar around!. Let's hope attending the course has not affected my games too much!! *(As told by Hilary Murray-Hession, Dublin Airport Authority, Class of 2005)*

www.treasurers.ie website

The website was re-launched last month in order to align the content and presentation more to members' needs.

The revised website should also enhance the delivery of information to members, the ability of members to communicate with each other and the speed with which information is communicated.

- The secure Members' Area will enable information that is proprietary to members to be delivered more effectively – all such information will be located in an area to which members, only, will have access. All members have been issued with a Username and Password to enable access to that area and, if you should forget either of these, there is a feature on the site that enables it to be reissued to you. The Members' Area features a Bulletin Board (link) on which we intend to post certain items of interest (such as requests for interested members to join IACT working groups on issues of relevance to European or international treasury projects). Members can also post information or requests for information on the Bulletin Board; we would recommend that members would use this tool for this purpose. The Member's Area also allows members to search across a database of Association members that agreed to allow their details to be made available in this way.

- it is important to 'update your profile' on the website. This allow you to ensure that your details are correct and up-to-date and also allow you to decide whether those details can been seen by other members. It also give the members the ability to determine how messages from the website are received – either in text or html format.

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