

Issue 2

February 2004



WWW.MACM.ORG.MT

MACM NEWSLETTER

A Comment by the MACM President

Mr. Geoffrey D. Borg

Following the success we had with our first e-zine it gives me great pleasure to write another short note for our second newsletter.

As we approach EU membership in the forthcoming months we are all preparing for the new standards that will be required to remain both competitive and effective in the market-place. At the same time we must ensure that the business environment is upgraded to meet our needs, current and future. MACM is pleased to note that this coming Winter we will see the introduction of Foundation & Certificate Courses in Credit Management under the auspices of the Institute of Credit Management (UK).

I have said time and again that we need to strengthen our work force's skills and many companies entrust one of their key assets, debtors, very often in the hands of inexperienced or unqualified personnel. The above training course will help the business community in giving the adequate training to its credit control department.

Another area of focus this year will be the organisation of the conference in May with a European theme. What else right now ! We have invited key speakers from different disciplines (legal, accounting, economic, business and banking) of the business environment to address the audience.

Our Secretariat has asked all members to pose critical questions they would like addressed or answered if



possible with the impending accession. Member's contributions in terms of feedback make the MACM conference much more effective, so I urge everybody at least to make an effort and pass on some pertinent questions to our Secretariat.

During the last few months we have had a number of meetings with the Government regarding credit information, dishonoured cheques and also VAT relief on bad debts. These avenues are always slower to achieve results given the different interests that Government tries to balance before taking any decisions.

However, as a Council, and I hope also as members, as a result of the continuous pressure we made on this issue, we have seen some radical improvements in the dishonoured cheques problem.

Banks have promised to self-regulate and we have witnessed a drastic improvement by HSBC and following a meeting with BOV we have also been promised that they are tightening their control of defaulters. We will monitor and report on any improvements in the next newsletter.

Happy reading !

MACM Newsletter

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Dr. Joseph Chetcuti, LL.D., M.A. (Fin. Serv.)

Mr. Michael Ellul Vincenti

Mr. Joe Falzon

Mr. Hugh Mercieca

Mr. Simon Tabone

MACM Highlights

FECMA Council Meeting

The possibilities to establish FECMA in other European Countries were evaluated.

The FECMA Council Members discussed how FECMA can add more value to its Members. Josef Busuttil put forward a number of suggestions as regards the future operation of FECMA.

13 November 2003

Credit Management in a European Context

Future EU market developments in the field of credit management were analysed during the Conference organised by VFCM (German Association of Credit Management) in Dusseldorf. An in-depth view of how to implement proactive credit management was given by various speakers.

13 & 14 November 2003

Coping with Change, Update Yourself or Sink.

MACM were invited to participate in a one-day Conference organised by Deloitte & Touche. Josef Busuttil shared some practical tips about how to be proactive in credit management. An overview of the current legislation and possible changes in the Maltese business environment were also addressed.

27 November 2003

Meeting with Bank of Valletta plc.

The relatively larger number of dishonoured cheques drawn on BOV was discussed, and the bank promised MACM that they are tightening their control on their clients who are repetitive defaulters.

19 January 2004

Meeting with Parliamentary Secretary Tony Abela M.P.

The Bad Debts as defined by the Inland Revenue and the VAT departments, and the differences that exist in the procedure when claiming bad debts refunds was discussed.

28 January 2004

Accreditation confirmed by the ICM of UK

MACM has been collaborating with MCAST to offer a highly reputable and well-recognised education programme pertaining to credit management in Malta.

The Institute of Credit Management (UK) accredited MCAST both as a study and as an examination centre for Malta. Maltese students will have the opportunity to study and sit for the examinations of the ICM (UK) in Malta.

11 February 2004

More Information at Your Fingertips

from The Secretariat

Thanks to the Information Management Systems Sub-committee, The Malta Association of Credit Management has introduced a new Information System to provide Law Court information to its Members at no additional fees.

Court cases related to 'commercial matters' filed in the Law Courts of Malta, together with the Warrants issued by the Law Courts of Malta, since 1st January 2004, are now available to the Members of MACM from the Members' Area of the MACM website:

www.macm.org.mt

The following information is available:

a. Case Number; Date of filing; Name of Plaintiff and Defendant; Claimed or Disputed Amount, filed at:

- The Small Claims Tribunal (Malta) – Talbiet*
- The Civil Court of Magistrates (Malta) – Avvizi*
- The Civil Court, First Hall (Malta) – Citazzjonijiet*

b. Warrant Number; Type of Warrant; Debtor's Name; Amount; and Cause, issued by:

- The Civil Court of Magistrates (Malta) – Mandati Magisterjali*
- The Superior Court (Malta) – Mandati Superjuri.*

Members having access to the Members' Area of the MACM website can search for the above information by the Name or Identification Number (ID Card Number / Company Registration Number) of the defendant / debtor as appropriate.

A comprehensive report comprising of full details of the client / debtor, together with any relative history of dishonoured cheques and late payment reported by MACM Members, and Law Courts of Malta information can now be available by searching / clicking on:

"Customer History"

from the Members' Area of MACM website.

Law Court information provided by MACM should serve as an additional valuable tool to evaluate and monitor the risks associated with credit management and the creditworthiness of the clients and debtors of the MACM Members.

Members should however note that Law Court information may not be provided in real time due to the systems and procedures of the Law Courts of Malta.

It's getting tougher out there

by Mr Glen Bullivant

Mr. Glen Bullivant is a Fellow of the Institute of Credit Management (ICM), and has held many senior credit management positions in industry in the UK. He is the UK's permanent delegate at FECMA, as well as Commissioning Editor of the FECMA Newsletter.

Credit management is all about making positive contributions to company profitability. Whenever the question "what do you do?" is answered by "I am a credit manager", the inevitable reaction of the questioner is "you are a debt collector then?" No, I am not. "You stop orders all the time?" No, I do not. What I do, or try to do, is protect my company's investment in accounts receivable by minimising the risk involved. Granting credit carries with it an element of risk. It always has done, and always will do, but that risk is one which is calculated. If I wanted to gamble, then better I go to the racecourse, or buy lottery tickets or put my money on some obscure non-league football team winning the FA Cup. Credit should never be a gamble, but will always be a calculated risk.

Calculating the risk is both the art, and the science, of credit management. To make any type of calculation, there will be the basic requirement of data – calculation is not the role of dice, gambling is – and data come in many shapes and sizes and from a variety of sources. In the consumer credit field in the United Kingdom, the last quarter of the 20th century saw the landscape of data collection and analysis change out of all recognition. The likelihood of success or failure, prompt payment or default is defined as a statistical probability, based upon data fulfilling predetermined criteria and whether credit management is looked upon as an "art" or a "science" in that context is merely academic. What it is, in effect, is a judgement automatically calculated on known factors, with intervention only necessary when borderline cases or anomalies appear. Commercial, or trade credit is a little different, with a greater degree of intervention and less automatic calculation being required.

Commercial decisions also have to take account of the seller's need to be in that market place, profit margins to be earned, the nature of the competition, and many others. Above all, however, is the need to have enough information upon which to make the calculation of risk, and arrive at the decision as to the granting of credit and on what terms.

We live in an age of "rights". Privacy and Data Protection add very much to the credit manager's burden in so far as they can restrict the availability of information upon which to make decisions to the benefit of both buyer and seller.

It seems to the writer that wherever the business is conducted, be it in the UK or Malta, the businessman has three principal sources of finance – his own capital, his bank and his trade creditors. It follows that if he has no more funds of his own, and the bank will not make any further advances, he has to fall back on his creditors for the financial support which will keep his business afloat. More than that, if he thinks about it, finance from his creditors is cheaper than the bank, and why use his own money if he can get away with using somebody else's? Credit managers therefore would like to be able to have access to as much relevant information as possible in order to reach the right decision.

More is the pity, then, that the United Kingdom government has seen fit to raise the audit exemption threshold for "small" companies in the UK yet again. "Small" was defined as a turnover not exceeding £2.8 million, a balance sheet total not exceeding £1.4 million and average employees not exceeding 50. Audit exemption means that up to those levels, companies could decide for themselves whether to undertake a full blown audit on their business and what needed to be filed at Companies House by way of abridged accounts. For credit managers, deciding upon risk exposure to such companies, the availability of audited accounts to scrutinise was already restricted. The definition of "small" goes up to turnover not exceeding £4.8 and balance sheet not exceeding £2.4 million, bringing thousands more business into the restricted bracket. Now, I am not sure what all this means in Maltese money, but a turnover of around £5 million seems a great deal to me, and as a credit manager, exposure to such companies at any one moment in time could be quite significant.

Certainly the EU would like to see "medium" (hitherto defined as turnover not exceeding £11.2 million, balance sheet total not exceeding £5.6 million and employees not exceeding 250) go up to £19.2 million turnover and £9.6 million balance sheet. To restrict the access to definitive data on companies of this size can be nothing other than a retrograde step as far as the free flow of trade credit is concerned, and the pressure will be on credit managers to come to the right decisions with less than adequate information.

It is getting tougher out there.

MACM Members are welcome to submit articles and comments for publication in future MACM Newsletter, which upon the Members' request the Newsletter will be published every quarter: February, May, August, and November.

Editorial opinions expressed in this Newsletter are not necessarily those of The Malta Association of Credit Management

Josef Busuttil

Editor

A World of Information Sharing and Collaboration

The Internet provides a simple and effective means for users to search, browse and retrieve information, as well as to make information of their own available for others. New information and communication technologies are changing the way organizations work. In response, organizations are devising new, collaborative strategies to manage information and share knowledge.

by Mr. Melvin Xuereb MBA (Maastricht)

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Remember the 'good old days' when internet and email did not exist? How did companies, people and communities share information then? The normal information channels used were either through a personal phone call, by fax, or via a letter or memo sent by normal mail. Thinking about it today, this was extremely limiting, especially since the whole process heavily depended on third parties. In addition, sharing information among communities was almost impossible, and probably could only be achieved by pinning information on notice boards or mailing out loads of memos and letters! These days are probably over.

Can we imagine waking up one morning and not having the facility to browse through our emails? Today, people and organizations have become used to receiving information daily. People search for information all the time, and companies strive for information to obtain competitive advantage.

The Internet Option

Thus, the internet provides a means to deliver information effectively. It enables information to travel at excessive high speeds, and at times, it is difficult to keep up with all the information that is received. It also enables information sharing among large groups of interested parties. A simple email to a hundred people takes a few seconds to send!

The internet proposition also enabled and enhanced information searches. Rather than waiting for information to come our way, the internet provided a technique by which we would search for our own information. This empowerment meant more pertinent information being made available when and where it is required.

In recent years we have seen another dimension to this paradigm. New internet technologies provide a framework where users can customize their own information requirements. The 'My' word became standard internet jargon ... such as 'My Yahoo', or 'My Msn', or as 'My Accounts' (on the MACM internet portal!)

The internet was instrumental in that it:

1. enables information sharing
2. provides fast and effective information delivery
3. allows for accurate and direct information retrieval
4. enables customization

Value Added Services

Most times internet users fail to understand what is going on behind the scenes. Millions of people, across all continents, are placing information, in the form of articles, databases, web pages, videos etc... on servers all around the world. The information is waiting there for others to search and extract it. Without this online collaboration, the internet would cease to exist.

Today, organizations are focusing on providing value added services to their customers. Most companies gather information internally and/or externally, process it, and make it available via a web portal. Companies focusing on providing such services have enriched their internet portals to enable their 'members' to have access to exclusive or member areas. This information is available to customers 24 x 7. There are no waiting times, no requests, no misunderstandings ... it is just the customer, and the web. All the information is at the touch of a fingertip.

The Web Portal

The Malta Association of Credit Management (MACM) invests a lot of effort in its information gathering processes and information systems. The apex of the process is reached by disseminating information via a web portal (<http://www.macm.org.mt>). The site is split into 2 sections, one for normal users, and a special section for exclusive members. Whereas the public area gives general information, to the entire world, about credit related matters, the exclusive area focuses on the information needs and requirements of the association members.

In simple terms, the process works as follows. Credit information is sent by the members to the MACM Secretariat. This information is analyzed, processed, stored and consolidated. Additional information resources, such as public registers, are used to support the information and enrich the content. This is then updated onto a web server from which members can query and request information.

The Association managed to create an online information centre which is:

- **24/7** – members can access and query information every day, 24 hours a day, 7 days a week.
- **Fast and effective** - allows members to search on specific problem areas, rather than just receiving loads of information and then the member has to go through and sift the data to obtain pertinent information.
- **Instant access** – credit data sent by all members is available online daily. Users can query this data via a web browser and the information is retrieved within a few seconds.
- **Accurate data** – members who use the web portal will only search for and retrieve information they need at that specific point in time.
- **Customization** – 'My Accounts' allows members to customize the information requirements to their specific needs. Monitoring and controlling of problem accounts has been enriched with this function.
- **Portable** – the web portal can be accessed from anywhere around the world.

Parmalat

- the story of infamy unfolds

by Mr George M.Mangion

The writer is a partner in PKFMALTA , an audit and business advisory firm.

Visit www.maltaconference.com



The story of infamy at Parmalat unfolds with as much as €14bn may have been lost in the collapse of the company, which is believed to constitute Europe's largest corporate failure. To exacerbate matters,

Alessandro Bassi, an aide to the former Parmalat finance director Fausto Tonna, threw himself from a highway bridge in Parma, the company's hometown. Following the stress and tension that has suddenly erupted, it is the auditors who are now busy pointing fingers. The whole accountancy profession is looking at the Parmalat scandal 'with horror', KPMG International chairman Mike Rake said.

Although his firm had no involvement in the collapse of Italy's largest dairy group, Rake said: 'What this is about is the accountancy profession as a whole and it's not helpful that it's anyone'. He was referring to the Italian arm of Grant Thornton, Parmalat's principal auditor, which has since been expelled from Grant Thornton International. Deloitte who certified Parmalat's accounts as the lead auditor gave the group a clean bill of health. It says the cash asset was supposedly held by Bonlat and it relied exclusively on Grant Thornton's audit.

To its defence Grant Thornton says it received confirmation advice of a €4.9 billion deposit from Bank of America. But the mystery thickens as Bank of America has said the confirmation document was a fake.

Italian prosecutors are investigating allegations of fraud and that the company provided false financial information to auditors and credit agencies. Last December they raided the auditors offices in Italy and took boxes of documents from Grant Thornton and Deloitte.

The auditors said they had first signalled accounting discrepancies at Bonlat in June to Deloitte, acting as the chief auditor of Parmalat's consolidated accounts. After investigators began asking questions, former finance official Luciano del Soldato told subordinates to destroy the computer holding Bonlat's financial data with a hammer. In the meantime, investigators discovered that Parmalat had a number of offshore companies, spreading from Malta to the Isle of Man, Dutch Antilles, Luxembourg and others. These companies were at the heart of the Italian food group's problems, which were disclosed when a €4 billion bank account held by Bonlat a subsidiary in Cayman Islands was declared false.

Court documents say former CFO Fausto Tonna has admitted the Bank of America logo was scanned into a computer and used to produce counterfeit letterhead. Company officials faxed it to the auditors, making billions of euros appear where none existed. The scam surrounding the forged documents thickens as certificates were allegedly scanned and manipulated and thus presented as evidence to auditors. A dramatic twist to the crisis reveals how Bank of America told Bonlat's auditor, Grant Thornton, did not have an account with the bank. Concurrently Parmalat's disclosure in November that it had invested nearly €500m in the little known Epicurum fund started the slide in its share and bond prices.

When the Group said it had not been able to recover the cash last December, Parmalat's fall on the markets turned into rout. Sceptics say that it never rains but it pours for Bonlat's auditors. If the fall out from Parmalat was not enough, the entire US firm of Grant Thornton has now been sued by the Securities and Exchange Commission (SEC). The SEC has taken the unusual step of suing the entire firm rather than individual practitioners involved in the case. GT may face fines, suspensions from practice or other restrictions. It 'caused, aided and abetted' fraud at MCA, alleges a Michigan mortgage company. Meanwhile Stephen Cutler, the SEC head of enforcement, said the watchdog was pursuing the audit firm 'because the failures set forth in the administrative complaint are not just personal failures - they are institutional failures.

Reverting back to In Europe the International Federation of Accountants (IFAC) has warned that it will support the application of strong sanctions should the preparers of financial statements at Parmalat, and the group's auditors, be found at fault.

Quoting IFAC president Rene Ricol he says 'Parmalat demonstrates that...it is very difficult to achieve improvements if those involved in financial reporting are not fully complying with the spirit and letter of the new requirements and national jurisdictions are not enforcing these requirements,' Grant Thornton's reputation has been damaged by the Parmalat scandal, the firm's international chief executive David McDonnell has admitted to the *Financial Times*. 'It would be a fool who did not agree there has been some damage done to the reputation of the international name by this debacle,' McDonnell told the *FT*.

On another hand McDonnell, who is leading an internal investigation into the firm's Italian business, complained that Grant Thornton had been singled out for intense scrutiny - unlike Parmalat's chief auditor, Deloitte. Deloitte has responded to press reports that it failed to perform its own checks on a Parmalat bank account that was allegedly falsified, insisting in its defence that it did comply with Italian accounting regulations. The audit opinion on the Parmalat Finanziaria consolidated financial statements was drawn up under Italian GAAS. The 2002 year-end report specifically stated that Deloitte did not audit 49% of consolidated assets and that these had been examined by other auditors who provided us with copies of their reports.

The firm's Italian affiliate Grant Thornton SpA audited Bonlat Financing Corporation, the Parmalat subsidiary based in the Cayman Islands where a multi-billion-euro accounting hole was discovered. Two auditors from Grant Thornton SpA, the Italian arm of the international audit firm, have been accused of complicity in setting up Bonlat. Unconfirmed reports have indicated that 600 million Euros out of the 2.5 billion in Parmalat's books, had been irregularly transferred from Parmalat to the Maltese subsidiary between 1999 and 2003.

Parmalat—the story of infamy unfolds - continued

The Italian news agency ANSA allege that €250 million, raised in a €500 million bond issue in Brazil in 2001, ended in Malta via a Cayman Islands unit of Spanish bank Santander Central Hispano. There are three Parmalat companies registered in Malta. Parmalat Capital Finance Ltd only came to Malta in April 2002, transferred here from the Cayman Islands. Parmalat Malta Holdings Ltd was registered in April 2002, while the third, Parmalat Trading Ltd, was registered in August 2002. All are official Parmalat companies reporting to the head office in Collecchio and are Deloitte's audit clients in Malta. It may appear that the Malta companies were not involved since the transactions relating to the missing €250 million were carried out in 2001, sources familiar with the investigations said.

Furthermore, news agency Reuters quoted finance minister John Dalli said last week that Italian investigators had cleared Malta of any involvement in the Parmalat case after inspecting records here.

To the relief of many practitioners working in the sector, he also informed parliament that the Maltese institutions had opened their books and records and given all possible assistance to the Italian investigators. So does the Parmalat story concern us given that our business structures are predominantly small and owner-managed? The answer is simple, one has to wait for the conclusion of intense investigations currently undertaken by the Italian Authorities.

WHEN ENCOUNTERING DIFFICULTIES WHILE CARRYING OUT A CREDIT CONTROL FUNCTION – HOW DOES MACM HELP OUT?

*by Ms Anna Maria Saliba
Credit Controller
Intercomp Group of Companies*

Nowadays whenever businessmen decide to accept cheques and allow credit, they have to be geared up for credit control.

I am employed as the Credit Controller within the Finance and Administration Department of the Intercomp Group of Companies. The business consists mainly of sales of computer and I.T. related equipment as well as mobile telephony to individuals and resellers. It also provides after sales technical support and software development.

The majority of sales transactions are provided on credit basis. Since no one likes selling on credit to people not known to them, they should be based on the fundamental principal of knowing your client. Hence when one sells on credit it is important to obtain enough details to assess the risk involved.

This requirement leads us to the importance of getting the client to fill in a Credit Facility Application Form. The prescribed form suggested by MACM is very useful and I have used it with all the local banks and have never encountered any problems. On this form one obtains a VAT number, telephone number, fax number, email address, specimen signatures, I D Card numbers, number of employees, amount of turnover, Bank details with consent to enquire at client branch, number of days' credit being arranged and the credit limit the client thinks he will be needing, etc, etc. The form is then submitted at the client's bank to obtain a status report. Hence one would be getting a reference from the bank, which up to now has always been looked upon as a very serious institution upon whose judgement one is prepared to rely on.

Once trading starts there are the mundane problems of clients exceeding their credit limits (as applied for) and refer to drawer cheques. Members report any refer to drawer cheques on a daily basis, and overdues on a monthly basis, both being circulated to the rest of MACM members accordingly. Therefore repetitive defaulters can easily be memorized.

Both reports are updated on the MACM website and any enquiries on anyone are therefore easily available.

What does this mean? It means that when:-

1. A cheque is returned from the bank;
2. A client starts having repetitive incremental overdues;
3. A new Credit Facility Application Form is submitted;

one can log onto the MACM website and by giving either an I.D. Card number, or a Company Registration Number, or a Vat number, one can obtain information on:-

1. The person's home address;
2. The household members aged over 18;
3. Whether the person is a director of another company or co-operative;
4. Whether the person/company was reported for overdue accounts;
5. Whether the person/company was reported for bounced cheques;
6. When the accounts were submitted;

And all this on one screen!!

Moreover the website has direct links with the Maltacom Directory and the Law Courts on-line service. The Maltacom Directory is helpful in obtaining the telephone number of the address from the abovementioned enquiries. The Law Courts on-line service is helpful in establishing what pending cases the client may have.

These are very important tools in facing the difficulties encountered in our business operation. Most of the abovementioned information is required in order to start dealing with a new client. However once an established client starts defaulting we can check on the MACM website and through the links offered we can see whether the client has been reported elsewhere in overdue accounts, whether the client has had bounced cheques and also whether the client has had pending cases at court. This information is helpful in obtaining a wider picture.

Credit Control is costly and time consuming. Companies are investing in Credit Control, and Credit Associations have come into being due to this need. The higher the number of hits the more cost-effective it becomes. MACM matches this need very effectively.