

## Technical Update Test (Q2 & Q3 2002) Worked Solutions

### CORPORATE FINANCIAL MANAGEMENT

#### **Question 1 (financial reporting)**

The Accounting Standards Board (ASB) exposure draft on a new form of the Operating and Financial Review (OFR) recommends that the review should include additional information on which area?

- (a) Directors' remuneration
- (b) Use of derivatives
- (c) Treasury policy
- (d) Corporate social responsibility
- (e) Don't know

#### ***Answer***

*The correct answer is (d) corporate social responsibility*

*The ASB is looking to encourage additional understanding amongst investors of company's "Key performance indicators" (KPIs) and to encourage the consideration of non-financial factors in setting business objectives, including corporate social responsibility. Please refer to the item in July/August Hotline p13. To learn more about measuring corporate performance, why not attend the ACT course on "Maximising Shareholder Wealth"?*

#### **Question 2 (corporate governance)**

What is the name of the current Department of Trade & Industry (DTI) consultative report on the role of UK non-executive directors?

- (a) Pickering Report
- (b) Sandler Report
- (c) Higgs Report
- (d) Turnbull Report
- (e) Don't know

#### ***Answer***

*The correct answer is (c) Higgs Report.*

*The Pickering Report deals with UK pension provision, the Sandler report with UK savings and investment and the Turnbull Report was an earlier report on UK corporate governance. For more information on Derek Higgs' report and the ACT response to it, see the September Hotline, p.10 and the article by Richard Raeburn, ACT Chief Executive, in the forthcoming October issue.*

**Question 3 (financial accounting)**

FRED30 deals with the proposed UK adoption of which International Accounting Standard (s) (IAS)?

- (a) IAS 39
- (b) IAS32
- (c) Both IAS39 and IAS32
- (d) All IASs in issue as at 31 December 2003
- (e) Don't know

**Answer**

*The correct answer is (c) Both IAS39 and IAS32*

*For more information, see September Hotline, p. 11.*

**Question 4 (taxation of intangibles)**

From 1 April 2002, corporate tax relief for the cost of intangibles will, in the main, be based on amortisation in the accounts. This does not however apply to:

- (a) Expenditure on the maintenance and enhancement of intangibles
- (b) Intangibles already in existence at the commencement date
- (c) Internal development costs
- (d) Abortive expenditure
- (e) Don't know

**Answer**

*The correct answer is (b) Intangibles already in existence at the commencement date.*

*Existing intangibles will continue to be governed by the present regime. All the other types of expenditure listed are eligible for the new relief. Further details in the May Hotline, p. 11.*

**Question 5 (business taxation)**

To take advantage of the new UK exemption from capital gains tax ("CGT") on substantial shareholdings, which percentage of a company's ordinary shares should normally be held by the taxpayer?

- (a) 5%
- (b) 10%
- (c) 20%
- (d) 25%
- (e) Don't know

**Answer**

*The correct answer is (b) 10%.*

*The original draft of the legislation included a minimum holding of 20% but this was reduced in the final version. For more on the exemption, refer to the article by Paul Cooper of KPMG in The Treasurer in May, p. 37*

**Question 6 (US aspects)**

The Sarbanes-Oxley Act 2002 deals with what area of the US economy?

- (a) Trade subsidies to US exporters
- (b) Anti-trust and competition law
- (c) Insider dealing
- (d) Corporate governance
- (e) Don't know

**Answer**

*The correct answer is (d) Corporate governance.*

*For more information on the contents of the Act, please read the article from BT Legal in The Treasurer in September, p. 23.*

**MANAGING THE TREASURY FUNCTION**

**Question 7 (UK euro entry)**

Which two organisations have collaborated to publish an Outline Blueprint looking at operational aspects for the financial services industry of any UK entry into the single currency?

- (a) BBA and APACS
- (b) FSA and the Bank of England
- (c) BBA and the Bank of England
- (d) FSA and APACS
- (e) Don't know

**Answer**

*The correct answer is (a) BBA and APACS.*

*Excerpts from the Blueprint showing the timetable for making euro banking services available during a changeover are included in the September Euro Spotlight, p. 37.*

## CAPITAL MARKETS & FUNDING

### Question 8 (loan documentation)

The new Loan Market Association (LMA) Syndication and Amendment proforma loan document combined both a syndication and an amendment function. The inclusion of the amendment function had the following implications for the treasurer:

- (a) The Amendment agreement requires conditions precedent to be satisfied potentially resulting in the requirement to deliver new legal opinions with connected costs to the borrower
- (b) Any stamp duty risk attendant on the Amendment Agreement falls on the borrower
- (c) Neither (a) nor (b)
- (d) Both (a) and (b)
- (e) Don't know

### ***Answer***

*The correct answer is (d) Both (a) and (b).*

*Borrowers who are using the proforma Syndication and Amendment documentation but who are not introducing significant amendments to the loan facility may benefit from negotiating the form of the Agreement. Extensive guidance on the LMA Primary Loan documentation, including the most recent updates is available on ACTOnline in conjunction with Slaughter and May at [http://www.treasurers.org/treasury\\_resources/LMA\\_guide.cfm](http://www.treasurers.org/treasury_resources/LMA_guide.cfm).*

***Please note that both this question and related resources are intended only to highlight particular aspects of the LMA agreement and should not be regarded as comprehensive or as providing specific legal advice.***

### Question 9 (loan mandatory costs)

According to the LMA Mandatory Costs Schedule, the amount of a bank's FSA supervisory fee which can be passed on to borrowers will be computed on an interim basis by reference to:

- (a) The lowest rate quoted by a syndicate reference bank
- (b) The highest rate quoted by a syndicate reference bank
- (c) A rate based on the average of rates quoted by syndicate reference banks
- (d) The rate listed in the table of uniform charges published by the FSA
- (e) Don't know

### ***Answer***

*The correct answer is (c) A rate based on the average of rates quoted by syndicate reference banks.*

In the medium term, this method will be replaced by a screen rate produced by the BBA. Again, more details can be accessed at ACTOnline at [http://www.treasurers.org/treasury\\_resources/LMA\\_guide.cfm](http://www.treasurers.org/treasury_resources/LMA_guide.cfm).

***Please note that both this question and related resources are intended only to highlight particular aspects of the LMA agreement and should not be regarded as comprehensive or as providing specific legal advice.***

### **Question 10 (derivatives documentation)**

Potential issues for the treasurer associated with amendments currently being proposed to the 1992 ISDA Master Agreement for derivatives documentation include:

- (a) Proposed changes to the sensitivity of default and early termination clauses
- (b) Increased dealer discretion in evaluating termination transactions
- (c) Expanded scope of non-reliance representations imposed on corporates
- (d) All of the above
- (e) Don't know

### ***Answer***

*The correct answer is (d) All of the above.*

*More details on these ISDA revisions from Gary Walker of Wragge & Co can be found in the May 2002 Hotline, p15.*

## **Interpretation of Scores**

- 0-4** This score indicates that your knowledge of current events is below that required of a professional treasurer. Use the “Hotline” section in *The Treasurer* to update yourself on recent developments. Alternatively visit the CPD resources database to gain a more rounded understanding of the wider issues.
- 5-7** Although you have a good grasp of some of the implications that recent developments have had, there are still gaps in your knowledge. Use the “Hotline” section in *The Treasurer* to update yourself, or visit the CPD resources database to gain a more rounded understanding of the wider issues facing today's treasurer.
- 8-10** Well done! Your score indicates that you have obviously been keeping yourself up to date with recent developments. If there is anything that you are unsure of, the “Hotline”

section in *The Treasurer* may prove useful, as will the CPD resources database for more in-depth analysis.