

## **Technical Update Test (Q4 2002) Worked Solutions**

### **CORPORATE FINANCIAL MANAGEMENT**

#### **Question 1 (corporate governance)**

Which proposal was a key recommendation made by the ACT in its submission to the consultation for the Higgs Report on the effectiveness of non-executive directors (and which was subsequently adopted in Derek Higgs' final report)?

- (a) That non-executive directors should hold only one post
- (b) That non-executives should be subject to compulsory rotation
- (c) That the positions of Chairman and Chief Executive should not both be held by a single individual
- (d) That non-executives should be excluded from the Audit Committee
- (e) Don't know

#### ***Answer***

*The correct answer is (c) that the positions of Chairman and Chief Executive should not both be held by a single individual.*

*For a summary of the ACT consultation comments on Higgs, review the article in the October 2002 "The Treasurer", p19-20 and in the Hotline, p.10. For a copy of the detailed submission, visit the Technical Resources section of ACTOnline. For the latest news on Higgs, watch out for Hotline in February 2003 or visit [www.dti.gov.uk](http://www.dti.gov.uk).*

#### **Question 2 (financial accounting)**

What treatment for share options granted to executives as part of their remuneration package has been proposed by exposure drafts ED2: Share based payment from the International Accounting Standards Board and FRED31: Share based payment from the UK Accounting Standards Board?

- (a) That an adjustment between the P&L reserve and the share premium account be made in an amount equivalent to the fair value of options granted
- (b) That the grant of options be recognised as an expense in the P&L account when the services are supplied by the employee in an amount equal to the fair value of the options granted
- (c) That the grant of options be recognised in the STRGL when the services are supplied by the employee in an amount equal to the fair value of the options granted
- (d) That share options do not represent an actual cost to the business and should therefore be disclosed in the notes to the accounts only
- (e) Don't know

**Answer**

*The correct answer is (b) that the grant of options be recognised as an expense in the P&L account when the services are supplied by the employee in an amount equal to the fair value of the options granted.*

*This represents a proposed change to current UK GAAP and IFRS where the grant of share options is not currently specifically dealt with in accounting standards. For more details review the item in the December 2002 Hotline or visit [www.iasb.org.uk](http://www.iasb.org.uk) and [www.asb.org.uk](http://www.asb.org.uk).*

**Question 3 (taxation of share schemes)**

What is the principal condition that must be met to ensure a corporation tax deduction for contributions to an approved share incentive plan (SIP) under the Employee Share Schemes Act 2002 that are used by the SIP to purchase shares in the employing company?

- (a) All the shares purchased must be transferred to employees within 5 years
- (b) All the shares purchased must be transferred to employees within 10 years
- (c) At least 50% of the shares must be transferred to employees within 5 years and the remainder within 10 years
- (d) At least 30% of the shares must be transferred to employees within 5 years and the remainder within 10 years
- (e) Don't know

**Answer**

*The correct answer is (d) At least 30% of the shares must be transferred to employees within 5 years and the remainder within 10 years*

*For more information, see December 2002 Hotline, p. 10 or visit [www.inlandrevenue.gov.uk](http://www.inlandrevenue.gov.uk).*

**Question 4 (international accounting)**

Which accounting standard setters agreed a “memorandum of understanding” in autumn 2002 to work towards convergence in international accounting frameworks?

- (a) ASB and FASB
- (b) ASB and IASB
- (c) FASB and IASB
- (d) ASB, FASB and IASB
- (e) Don't know

**Answer**

*The correct answer is (c) FASB and IASB.*

*Further details in the December 2002 Hotline, p. 11. Co-operation between international accounting standard setters is already well established, building on initiatives such as the former Joint Working Group on derivatives accounting. For example, the ASB is working with the IASB on amendments to IFRS before these are adopted for UK listed companies in 2005.*

**Question 5 (derivatives accounting)**

Which proposal for a change to IAS39 by the EACT (euro-zone grouping of corporate treasurers) was endorsed by the ACT in its consultation response to the IASB on the exposure draft for a revised IAS39?

- (a) That “recycling” of items from the STRGL to the P&L should be discontinued
- (b) That FX contracts internal to a group which are laid off externally on an aggregate or net basis should be eligible for treatment as hedges in consolidated financial statements
- (c) That there should be clear distinction between cashflow and fair value hedges
- (d) All of the above
- (e) Don’t know

**Answer**

*The correct answer is (b) That FX contracts internal to a group which are laid off externally on an aggregate or net basis should be eligible for treatment as hedges in consolidated financial statements*

*Please refer to December 2002 Hotline, p. 12 and to the full text of the ACT response on IAS39/FRED30 at [www.treasurers.org](http://www.treasurers.org).*

**Question 6 (derivatives taxation)**

The Inland Revenue is to introduce new anti-avoidance rules in the Finance Bill 2003 concerning an accounting method for currency contracts and options. The method concerned has been used, allegedly, to produce a tax deduction for a one-off payment without a matching gain on the contract being realised. Which accounting method is the subject of the rule change?

- (a) The “closing rate” method
- (b) The “transaction rate” method
- (c) The “average rate” method
- (d) The “rate implied in the contract” method
- (e) Don’t know

***Answer***

*The correct answer is (d) The “rate implied in the contract” method.*

*For more information, refer to the November Hotline or visit [www.inlandrevenue.gov.uk](http://www.inlandrevenue.gov.uk).*

**MANAGING THE TREASURY FUNCTION**

**Question 7 (EU regulation)**

Which item of proposed EU legislation of key importance to treasurers was approved by EU Finance Ministers on 5 November 2002?

- (a) EU Prospectus Directive
- (b) EU Adoption of International Accounting Standards
- (c) EU Tax Harmonisation Action Plan
- (d) EU Market Abuse Directive
- (e) Don't know

***Answer***

*The correct answer is (a) EU Prospectus Directive.*

*For more information on how the Prospectus Directive could impact treasurers, refer to the article by John Russell of Sidley, Austin, Brown & Wood in the December 2002 edition of “The Treasurer”, p.26.*

**Question 8 (financial regulation)**

The role of which advisor to a company seeking admission to a listing is to be reviewed as part of the current Financial Services Authority consultation on changes to the UK listing rules?

- (a) The statutory auditor and reporting accountant
- (b) The legal advisor
- (c) The corporate finance advisory team
- (d) The sponsor
- (e) Don't know

***Answer***

*The correct answer is (d) The sponsor.*

*There are five policy areas within the UK Listing Rules to be reviewed; corporate governance, corporate communication, shareholders' rights and obligations and financial information as well as the role of the sponsor. For further information, please see the item in October 2002 Hotline, p.10.*

## **RISK MANAGEMENT**

### **Question 9 (pensions)**

Which professional body recently published a "thought leadership" document on a new Citizen's Pension of £100 per week to be funded by a later state retirement age?

- (a) Pensions Management Institute (PMI)
- (b) National Association of Pension Funds (NAPF)
- (c) Institute of Actuaries
- (d) Chartered Institute of Public Finance Accountants (CIPFA)
- (e) Don't know

### ***Answer***

*The correct answer is (b) the NAPF.*

*A summary of the NAPF proposals is featured in the November 2002 Hotline, p10. For more on pensions reforms, also look out for news of the Government Green Paper on Pensions in the February Hotline.*

### **Question 10 (alternative investments)**

Which type of investment vehicle was the subject of a recent FSA Discussion Paper on regulation of its sales and marketing in the UK and its effects on UK markets?

- (a) Commercial property funds
- (b) Split capital investment trusts
- (c) Hedge funds
- (d) Guaranteed equity bonds
- (e) Don't know

### ***Answer***

*The correct answer is (c) hedge funds*

*For details of the consultation paper, refer to the October 2002 Hotline, p.12.*