



LEADING TREASURY  
PROFESSIONALS

## The Association of Corporate Treasurers

Comments in response to  
***Banking reform: draft secondary legislation Cm  
8660***

From H M Treasury,  
July 2013

9 October 2013

### The Association of Corporate Treasurers (ACT)

The ACT is a professional body for those working in corporate treasury, risk and corporate finance. Further information is provided at the back of these comments and on our website [www.treasurers.org](http://www.treasurers.org).

Contact details are also at the back of these comments.

We canvas the opinion of our members through our monthly e-newsletter to members and others, the Treasurer magazine and our Policy and Technical Committee.

The ACT welcomes the opportunity to comment on this matter.

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### Specific comments

The ACT has seen the draft submission to be made by the CBI and very much supports the points made therein.

In particular with regard to businesses that have to deal with the ring fenced bank, it is important that they be able to access risk management products in the form of derivatives. We accept that it could be deemed appropriate to restrict the ring fenced



*The Association of Corporate Treasurers, London, October 2013*

bank to simple derivatives but the definition should be extended sufficient to allow the sale of options to customers. The purchase of an option by the customer will often provide the most appropriate form of hedging and from the bank side the product is easily manageable and not unduly complex. In previous correspondence we have explained normal corporate hedging behaviours and we would refer you to the ACT and the Law Society joint submission to the PCBS.

As a further point of drafting the types of derivatives are restricted to levels 1 and 2 from the IFRS 13 hierarchy, whereas those dependent on a level 3 valuation ie when observable inputs are not available are not permitted in the ring fenced bank. As explained in the CBI submission at times of market disruption liquidity and observable inputs become problematic so that arguably all derivatives are in danger of coming under the level 3 definition, but at exactly those difficult and volatile times businesses will want even more so to hedge their (interest rate, currency or commodity) risks where possible.

We suggest that the drafting be amended to permit derivatives that “Under normal market conditions” would be valued under level 1 or level 2.



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## **The Association of Corporate Treasurers**

The Association of Corporate Treasurers (ACT) is the leading professional body for international treasury providing the widest scope of benchmark qualifications for those working in treasury, risk and corporate finance. Membership is by examination. We define standards, promote best practice and support continuing professional development. We are the professional voice of corporate treasury, representing our members.

Our 4,300 members work widely in companies of all sizes through industry, commerce and professional service firms.

For further information visit [www.treasurers.org](http://www.treasurers.org)

Guidelines about our approach to policy and technical matters are available at <http://www.treasurers.org/technical/manifesto>.

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*The Association of Corporate Treasurers, established by Royal Charter*



*The Association of Corporate Treasurers, London, October 2013*