IN BRIEF

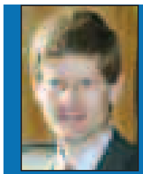
▸ The **ACT** has formally responded to the exposure draft issued by the ASB on a reporting standard for the **Operating and Financial Review** (OFR). The ACT is a supportive of the concept of an OFR and welcomed moves to improve the quality of these commentaries, but found that there were many points of detail which still needed to be addressed. The ACT also responded to the review being carried out on the **Turnbull Guidance on Internal Control.** The full responses to both these are available on www.treasurers.org

▸ A **Public Interest Oversight Board** has been created by a grouping of international regulators including IOSCO, the World Bank and the Basle Committee. In the past the accounting and auditing professions have set their own standards. The International Federation of Accountants will continue to be involved in setting standards, but the new body will provide a form of public oversight of the process. It will not be responsible for enforcement which remains a matter for national regulation.

▸ From February the 1995 Pensions Act, Section 75 claim that a **pension scheme** which is winding up has on the sponsoring employer has changed. Whether or not the employer is solvent or insolvent the claim will be for the scheme's full buy-out liability based on the cost of buying annuities. Previously for an insolvent sponsor the Section 75 debt was for a lower amount based on the scheme's excess liabilities calculated in accordance with the Minimum Funding Requirement (MFR).

▸ The **Securities and Exchange Commission** (SEC) in the US has announced that foreign companies with a US listing will have an extra year before they have to comply with the Sarbanes-Oxley Act Section 404 covering the management's and auditor's assessments of effectiveness of internal controls. For these companies compliance will be needed for financial years ending on or after 15 July 2006.

▸ **The Bank of England** has introduced part of its reforms to its operations in the sterling money markets, with the aim of stabilizing overnight rates. From mid March the Bank's overnight and late repo rate will be the MPC repo rate plus 25bp, and the Bank's overnight deposit rate will be the MPC repo rate minus 25bp.



INTRODUCTION

By MARTIN O'DONOVAN
ACT Technical Officer

Too many new rules and a lack of common sense may be frequent complaints, but there are some positives around. The common sense view that pre-emption rights are an essential shareholder right has been upheld by the final Myners report, and the International Accounting Standards Board (IASB) has even made one aspect of IAS 39 more user friendly for hedging intra-group forecast transactions, both of these having been strongly advocated by the ACT.

The ACT now hopes that our written response will be similarly successful in influencing the Accounting Standards Board (ASB) to improve on its draft Operating and Financial Review (OFR) reporting standard. We have also participated in the IASB roundtable on IAS 39 and the Fair Value Option which still remains an open issue. ■

Hedging intra-group forecast cashflows

The IAS 39 story is still not yet complete, but at least one element has at long last fallen into place, and in a way that is helpful for treasurers and might even be interpreted as a new degree of realism within the IASB. The rules for hedging forecast intra-group cashflows has been in turmoil since the ACT first pointed out to the IASB the complications arising from removing the guidance in IGC 137-14. Until December 2003 there was an exception to the rule that internal transactions could not qualify for hedge accounting. This was to cater for the hedging of forecast intra-group cashflows.

This guidance was removed leaving a genuine commercial exposure that could not be hedged effectively in accounting terms. The IASB responded last summer and issued an exposure draft which produced a compromise solution by allowing the external transaction that derived from the forecast internal transaction to be a hedge at the group level even if there was no FX exposure in the entity making the external transaction.

The example in the exposure draft was a Group A using the EUR as its presentation currency with a manufacturing subsidiary B with a EUR functional currency, selling its product in USD to subsidiary C which has a USD functional currency. C on-sells to external customers in USD. Company B's forecast USD sales create an exposure for it which could not count as a hedged item and instead the USD sales by C would on consolidation be treated as the hedged item, even though company C itself has no exposure, being a USD based company selling in USD.

This idea was scrapped at the February IASB meeting. A near final draft of a new amendment to IAS 39 has instead been published which will specifically permit the foreign currency risk of a highly probable forecast intragroup transaction to be the hedged item in a cashflow hedge in consolidated financial statements provided the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated profit and loss. ■

Amended accounting standard

IAS 19 Actuarial Gains and Losses, Group Plans and Disclosures. On 16 December 2004 the IASB announced that it had issued an amendment to IAS 19 *Employee Benefits,* to allow the option of recognising actuarial gains and losses in full in the period in which they occur, outside profit or loss, in a statement of recognised income and expense, similar to the requirements of the UK standard, FRS 17 *Retirement Benefits.* Prior to this revision IAS 19 required such gains and losses to be recognised in the income statement, although this recognition could be spread over many years. There is now the choice as to which option is used.

The amendment also specifies how group entities should account for defined benefit group plans in their separate or individual financial statements, and requires entities to give additional disclosures. This applies groups under common ownership and means that if there is a contractual arrangement for sharing gains and losses then each entity should recognise the amount allocated to it. If there is no sharing arrangement the entity which is legally the pension sponsor will bear all the IAS 19 gains and losses with the other entities simply bearing the cost of their own contributions. ■

New ideas on BACS

The Cruickshank report in 2000 voiced concerns that the mutual governance used by BACS and other payments systems dampened competition and stifled innovation. Since then there have been some developments; one is that much of BACS Ltd has become Voca Ltd and continues with the ownership and running of the actual systems. BACS Payment Schemes Ltd (BPSL) was demerged from BACS Ltd and is a separate not for profit body that sources its infrastructure services from Voca, although both currently remain under common ownership.

BPSL administers the payments rules and standards, maintains the clearing and payment integrity and develops new payment services. The schemes offered include standing orders, direct debits, direct credits and exceptions processing such as Automated Direct Debit Amendment and Cancellation Service (ADDACS). It also manages the Direct Debit guarantee which is underwritten by its Members.

At present customers have direct access to BPSL as regards the service provision, although they all need the backing of a Member bank. The BPSL Settlement Members must be a bank or building society, based in the European Economic Area (EEA) and must have a settlement account at the Bank of England. The old requirements to be a member of APACS or to own part of Voca no longer apply. There are 14 Settlement Members including all the big UK banks and others such as Northern Rock and the Cooperative Bank.

BACS facts and figures

- **Up to 65 million transactions a day & rising.**
- **36 years. 50 billion transactions. 0 failures.**
- **4.5 billion transactions in 2004.**
- **£2.6 trillion worth of payments per annum.**
- **Volume in 1 day equals a years volume 35 years ago.**
- **70% of UK population use BACS.**
- **90 % of UK salary payments are paid using BACS.**
- **100% of FTSE 100 use BACS.**
- **100,000 businesses across the UK connect to BACS.**
- **99.5+% availability of customer input channels.** ■

There are now some new proposals to provide better ways for the customers to get involved in the governance and services provided by BPSL, the idea being to create some new categories of membership.

Affiliates. BPSL is intending to create a category of Affiliate, open to anybody, within the next few months. This might be of interest to providers of current accounts (banks and building societies); heavy users and originators; commercial computer bureaux; software providers; training providers; etc. Affiliates will be eligible to participate in the Affiliates Interest Group, and through this be influential in the development of the schemes. The Group will manage its own affairs and elect its own Chairman. The Group will be formally entitled to raise questions and issues with the BPSL Board, and to receive responses.

By becoming an Affiliate, an organisation will not be exposed to any onerous additional rules or responsibilities regarding BPSL apart from payment of a modest annual subscription.

Clearing Membership – The current proposition being considered is envisaged as providing nearly all the rights and responsibilities of settlement membership, apart from the obligation to settle at the Bank of England (with the attendant requirement for collateral to be posted) and without underwriting the Direct Debit Guarantee to customers. It may be that after a time Affiliates or heavy users may find it advantageous to move to this category with greater involvement. Clearing members would gain access to the wholesale price tariff and so pay Voca for clearing payments according to the same tariff as Voca uses for settlement members; and Clearing members could have a seat on the BPSL board with votes based on payment volumes, as is the case for settlement members.

The hope is that through the involvement of additional parties able to influence the BPSL board we will see improved governance and better responsiveness to customers and the demands for additional services. The ACT is participating in an Office of Fair Trading Working Group which is looking at BACS access and governance. Therefore any readers who are active in this area of payments and systems and want more information, or are willing to contribute reactions or inputs please contact **modonovan@treasurers.co.uk** ■

IN BRIEF

The International Primary Markets Association **(IPMA)** and the International Securities Market Association **(ISMA)** have agreed to merge and form the International Capital Markets Association, with completion expected in July.

FRS 2 was amended by the ASB in December 2004 so as to change the definition of a subsidiary undertaking. The need for a ‘participating interest’ is changed in order to reflect the latest amendments to the Companies Act and instead is based on ’dominant influence and control’.

The Inland Revenue announced on 4 March that with immediate effect on new transactions they were extending the transfer pricing rules which cover the tax deductibility of interest on loans from a person controlling a business where the transaction is not at arm's length. The transfer pricing rules will be extended to apply to financings from a group of persons acting together where they control, or are capable of controlling the borrower. The venture capital industry has been particularly been vocal in its objections to this move since its biggest impact is likely to be on shareholders providing debt in private equity transactions.

The **Debt Management Office** (DMO) has announced that the Government intends to issue ultra long dated gilts. In a release timed to coincide with the Budget the DMO confirmed that its earlier consultation had revealed a good demand for conventional gilts with maturities out to 40 or 50 years, and accordingly it will plan to issue as soon as the first quarter of 2005-06.

There was also good interest in index linked issuance but to assist in the pricing of such issues it is intended that index linked gilts will only be introduced once a benchmark yield curve has been established from the conventional issues at these very long dates. The DMO is not planning to issue gilts with annuity structures in the near future. There was limited appetite for such features and it may be that tailored products could be better provided from the financial services industry with the Government providing a liquid and standardised instrument.

For more technical news go to the technical news area of the ACT website: www.treasurers.org