IN BRIEF

The right-of-use model for lease arrangements has been affirmed at a joint meeting of the IASB and FASB. Under the model, a lessee in an arrangement that is or contains a lease would recognise an asset representing its right to use an underlying asset during the lease term and a liability representing its obligation to make lease payments during the lease term. Application of the right-of-use model by a lessor will be discussed at a future IASB meeting.

The boards affirmed the decision in the leases exposure draft that right-of-use assets in a sublease fall within the scope of the leases standard, as do leases of non-core assets, and long-term leases of land. The boards also confirmed that exploration and mining leases, leases of biological assets, and leases of service concession arrangements do not fall within the scope of the lease standard. More research is to be done to determine if leases of internal use software and leases of inventory fall within the scope of the standard.

The IASB and FASB have issued a new joint exposure draft, **Offsetting Financial Assets and Financial Liabilities**, which is open for public comment until 28 April 2011. The boards report that requirements for offsetting represent the single largest quantitative difference in amounts presented in the statements of financial position between IFRS and US GAAP. While a big change from current US GAAP, which allows companies to offset derivatives as well as related collateral and certain repo balances, the principle is very similar to what is contained in IAS 32.

Under the proposal an entity would have to offset a financial asset and a financial liability if it has an unconditional and legally enforceable right of set-off and intends to net settle. It clarifies that a right of set-off should be enforceable in all circumstances, including default by or bankruptcy of a counterparty.

In addition the exposure draft has quite onerous quantitative disclosure requirements. An entity must disclose in two separate tables details by class of financial instrument, including gross amounts before offset, the amounts offset and the amounts which could be legally set off but the entity does not intend to net settle for both financial assets and financial liabilities.

You can download a copy of the exposure draft by going to: **http://bit.ly/eTNpvx**

The ACT welcomes treasurers' comments on the exposure draft: **technical@treasurers.org**

INTRODUCTION

By Michelle Price

ACT technical officer, policy and technical

The two dominant subjects that seemed to bombard my desk continually over the last month have been hedge accounting and Basel III. Given that the consultation period for the IFRS 9 exposure draft has now ended, it is a wait and see game on hedge accounting. How will the IASB respond? I have filed away my various notes, thoughts and helpful feedback from treasurers (a big thank you to all who responded). On the other hand, my Basel III file appears to grow by the day. On top of this in the current post-credit crunch environment, the impact of financial regulatory changes on corporate treasurers is never far away and this month we update you on the proposed structural changes to UK financial regulation.

Regulation of financial markets reshaped

HM Treasury is consulting on financial markets reforms with A New Approach to Financial Regulation: Building a Stronger System.

The break-up of the Financial Services Authority (FSA) was announced in June 2010. The responsibility for business regulation was handed over to a new regulator, the Consumer Protection and Markets Authority (CPMA), and banking regulation went to the Bank of England, with payments system supervision.

The CPMA has now been renamed the Financial Conduct Authority (FCA). Its core purpose is to protect and enhance the confidence of all consumers of financial services. Much of the FCA's focus will be on developing a new model of conduct regulation in the retail sphere.

The ACT's response to the previous consultation highlighted issues with the CPMA (now FCA) regulating both retail and wholesale market conduct, in particular the greater visibility politically of "consumer protection" over the market division, which might therefore become subordinate. The government says it is "committed to ensuring that markets regulation will be of equal status and profile within the CPMA [now FCA] and receives appropriate attention and resources". ACT concerns are illustrated by the consultation document's chapter on the FCA, which dedicates several pages to consumer regulation but only one paragraph to regulating wholesale market conduct.

An ACT concern that "consumer" covered too wide a range has been met by the government offering an "appropriate" degree of protection for consumers, with the approach depending on the consumer in question, and the degree and type of regulatory protection tailored to their needs and expertise on a case-by-case basis.

In the previous ACT response, we, like others, expressed dismay at the proposal to merge the UK Listing Authority (UKLA) with the Financial Reporting Council (FRC). The government has agreed the UKLA should remain with the FCA.

A remaining issue is that the FCA is the only UK representative on the European Securities and Markets Authority (ESMA) board. This may leave the UK with a weakened voice in Europe since ESMA extends to areas beyond the FCA's remit that will be under the Bank of England. Ireland's solution to this problem is to appoint key people to suitable positions in both the market authority and the central bank. ■

What was it worth?

This site is not the Antiques Roadshow but one that calculates the value of money in the past relative to now. Data is available for sterling from 1264 if based on basic purchasing power, or from 1830 if based on various GDP-linked comparators.

www.measuringworth.com

Inquiry into going concern unveiled

The Financial Reporting Council (FRC) has set up an inquiry, led by Lord Sharman, into going concern assessments. The aim is to identify lessons for companies and auditors, recommend measures, if any, to improve the existing reporting regime, and produce guidance for companies and auditors.

Announcing the inquiry, FRC chairman Baroness Hogg said: "Two years ago, at the height of the credit crisis, we... met the immediate need for guidance [on going concern and liquidity risk] at a time when bank lending to companies was being dramatically curtailed.

"Although credit markets have since stabilised, going concern and liquidity risk continue to be critical corporate reporting and audit issues. In launching this inquiry, our aim is to ensure the lessons of the recent past are captured, our guidance developed as necessary, and best practice in dealing with a range of related issues shared widely."

Lord Sharman said that he was looking for input from a wide range of interested parties, "including executive and non-executive directors and members of audit committees, the auditing profession, representatives of shareholders and other providers of capital, regulators and others".

The inquiry will address:

- how companies ensure the adequacy, timeliness and reliability of the internal information used to monitor going concern and liquidity risks;
- how the board and, separately, the audit committee approach going concern and liquidity risks, particularly in situations where these issues are of heightened importance;
- how the consideration of going concern and liquidity risk can best be incorporated into other aspects of stewardship and reporting;
- how auditors approach these matters; and
- whether the existing reporting regime and related guidance should be developed.

The inquiry is expected to provide its preliminary conclusions in the summer and final recommendations by the end of the year.

The FRC will consider the inquiry's recommendations alongside responses to its Effective Corporate Stewardship paper, which recommends directors describe in more detail the steps they take to ensure the reliability of the information on which the management of a company is based. The paper also recommends that audit committees should explain how they have discharged their responsibilities for the integrity of the annual report.

The ACT was influential in drafting the FRC's existing guidance on going concern and liquidity. ■

MMFs to feel the Basel III hit

Basel III is likely to affect money market funds (MMFs), with potential differences arising globally as it is implemented by domestic banking regulators. The two liquidity requirements in Basel III are the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR).

The LCR has three areas of potential impact for MMFs:

- Banks may have to hold liquid assets against any net asset value MMFs managed within their group. This will probably be calculated as a percentage of assets under management and is based on the assumption that a bank would support its MMFs for reputational risk reasons.
- To comply with the liquid assets definition, banks may hold a higher proportion of government debt in future, leaving MMFs with a reduced gilts pool it can purchase from.
- It will be preferable for banks to fund themselves with medium-term deposits from companies rather than short term-paper issued to MMFs.

The NSFR has two areas of potential impact:

- In addition to the liquid assets held under the LCR, banks which manage MMFs somewhere within their group will need to hold stable funding against that exposure.
- There may be less short-term debt for MMFs to buy given the NSFR requires stable funding to be one year and longer, and MMFs are required by law to shorten fund duration and increase fund liquidity.

The Institutional Money Market Funds Association (IMMFA) views Basel III as one of the key issues impacting the MMF industry – one that may significantly change the shape of the sector.

IN BRIEF

▸ **The Bribery Act**, due to come into force in April 2011, has been delayed because the Ministry of Justice has not yet issued guidance on the "adequate procedures" businesses can implement to prevent bribery. The guidance will clarify how the law will view corporate hospitality, cover the use of facilitation payments, and give companies some protection against illegal acts committed by joint venture partners. No firm date has been given for publication of the guidance and the Act will not take effect until three months after the guidance is published.

▸ Increasing awareness of **payment methods** is an objective of the UK Payments Council, in part to help prepare for the eventual phase-out of cheques. A website, **www.payyourway.org.uk**, has been created to explain cash and cheques, card, e-payments including PayPal, and new ways to pay, such as mobile and wave and pay.

▸ The ACT has issued a response to the **IFRS 9: Hedge Accounting exposure draft**. The ACT agrees with the overall aims, including aligning hedge accounting more closely with risk management activities, and moving to a more principles-based standard. However, we do not agree with some unnecessarily complex rules, including:

- hedge accounting for net positions (as you typically won't be able to hedge account for net sales and purchases cashflows);
- mandatory rebalancing of hedge relationships;
- prohibition of voluntary dedesignation of hedge relationships; and
- the accounting mechanics for fair value hedges.

We believe the disclosure requirements aim to be helpful to the investor community. However, there is a danger that, as proposed, on their own they are positively misleading. The IFRS 9 proposals focus on those items that have been hedge-accounted; however, the items not hedge-accounted or not hedged at all can far outweigh the size and impact of those that have been. We also pointed out to the IASB that the requirements to disclose forward projections of sales of products and services and purchases of commodities and material, together with details of derivatives hedging these (including hedge amounts and hedged rates), could potentially disadvantage companies against their competitors, particularly when the competition did not have to.