IN BRIEF

A Single Euro Payments Area (SEPA) regulation setting technical and business requirements for all credit transfer and direct debit transactions in euros within the EU has been adopted by the Council of the EU. The regulation sets 1 February 2014 as the migration deadline, and phases out the requirement to provide the business identifier code (BIC) by 1 February 2016, leaving the international bank account number (IBAN) as the sole account identifier for cross-border and national payments. Multilateral interchange fees (MIFs) will also be phased out by 1 February 2017.

A "SEPA for Business" brochure detailing how to get your company ready for SEPA has been published by the European Payments Council (EPC). A copy of the brochure and other relevant publications can be found on the EPC website at **http://bit.ly/GE4keY**

The International Organization of Securities Commissions (IOSCO) has published a report on the requirements for **mandatory clearing of over-the-counter (OTC) derivatives**. The report outlines recommendations to co-ordinate the application of central clearing requirements on a product and participant level, and any exemptions from them, to minimise the potential for regulatory arbitrage. For those interested in the position taken by individual countries, a summary by jurisdiction of mandatory clearing regimes and exemptions (by participant and transaction) is provided in the appendices. A copy of the report can be found at **http://bit.ly/yH9yEm**

A new single currency unit, the FTSE wealth preservation unit (WPU), has been launched by FTSE, the index group. The WPU is constructed from a basket of 11 currencies (the world's largest seven currencies along with the currencies of Brazil, Russia, India and China) and a small weight in gold and oil. It is designed to diversify foreign currency exposure across developed currencies, to hedge buying power risk against BRIC currencies, and to hedge inflation risk through exposure to commodities. While the WPU basket is not yet tradable, Reza Ghassemieh, head of research at FTSE, said several large financial institutions planned to create products based on the basket, including currency overlays, swaps and exchange-traded funds.

INTRODUCTION

By Michelle Price

Associate policy and technical director

They say time flies when you are having fun and I must be as I can't believe it is already April with the ACT Annual Conference upon us. The Website Watch may provide treasurers with some unusual insights into when to hedge FX risk, although the more cautious may be more interested in John Kay's interim report summary. In the longer renminbi article I have tried to detail the key facts from a fascinating conference I attended. I hope it gets you some way up the learning curve.

ACT puts treasurers' concerns to Kay Review

John Kay's interim report on the UK equity markets and long-term decision-making appeared on 29 February. It summarises the responses to September's call for evidence, which the ACT responded to, and sets out the issues that will be considered in the second phase of the review. Kay has not yet made any recommendations but will in his final report, scheduled for the summer.

ACT members are the principal managers of funding and financial risk for companies and it was on this basis that we provided comment to the call for evidence. Based on feedback from members, we provided the following input:

- The timescale for investment appraisal varies between companies and between industries.
- Institutional investors are often focused on outperforming their benchmark in the current year but usually take into account a company's long-term strategy in doing so.
- Publicly traded companies pay a lot of attention to short-term fluctuation in share price if executives are rewarded on this basis.
- Some equity market operators are focused on profiting from small market movements rather than long-term investment.
- The wholesale movement in nominee holdings makes it more difficult for UK private investors to participate in formal meetings and votes.
- Stock lending is an acceptable practice and assists the smooth running of the market and settlement and clearing systems.
- Contracts for difference may leave the registered owner with no economic interest and no reason to vote, yet the governance framework relies in part on active and thoughtful voters.

Topics discussed in the interim report include:

- the purpose of equity markets and how its structure in the UK has changed over time;
- the company and role of the board;
- performance measurement and the effect of financial reporting;
- market practices, including initial public offerings (IPOs), tax treatment and high-frequency trading;
- asset management, including the distinction between investors and traders;
- intermediaries grouped into asset managers, holding agents, administrators and retail agents.

Kay has invited interested parties to submit any additional evidence and comments on the issues raised in the report by 27 April.

A copy of the interim report can be found at http://bit.ly/Aep4bU ■

Stocks and the stars

Some people may come up with methods for predicting market movements but to be right consistently is surely impossible? For those who think that astrology can help, Futureanalyzer has some apparently learned and rigorously analytical papers on why the phases of the moon are relevant, or the importance of the ephemerides, not forgetting the retrograde motion of Mercury and Venus and more.

www.futureanalyzer.com/solutions.php

No stopping the rise of the renminbi

A recent conference hosted by the London Stock Exchange has touted the renminbi (RMB) as the next big international currency, predicting it will overtake the dollar and become one of the world's reserve currencies. In the next few years we are likely to see a lot more of the renminbi as corporates begin regularly transacting in it.

The conference heard that by the end of 2011 the renminbi had become the world's 17th biggest currency by value of payments. At the start of the year it had been in 30th position, and grew at a compound monthly rate of 14.8% compared with an average of 0.7% for other currencies. Although the renminbi fell back to 20th position in January 2012, this slippage is thought to have been influenced by the Chinese New Year.

Three years ago the renminbi accounted for less than 3% of total annual trade flows into and out of China. In 2011 it took 10% and the figure is expected to rise to 30% in the next two to three years. Although the percentages appear small this is in the context of China's position as the world's biggest exporter, therefore the volume of trade flows is huge. HSBC told the conference that market demand is the driver rather than active promotion by the government. However, even with the significant increase in renminbi trade flows, the main currency in which international trade is denominated remains the US dollar.

Although renminbi repatriation is now easier, its movement is still heavily regulated. Wholly Chinese firms that want to charge for exports in their own currency must first apply for Mainland Designated Enterprise (MDE) status. This takes time and the take-up of renminbi invoicing in China by exporters is expected to be gradual.

When traded on the mainland, the renminbi's currency code is CNY; CNH is the code often used to refer to offshore deliverable renminbi. Back in October 2010 strong demand for CNH and the expected revaluation of the renminbi resulted in USD/CNH trading at a premium of 3% over USD/CNY. However, this position was reversed in September 2011 when USD/CNH traded at a discount of 2.5% when international investors dumped renminbi for dollars.

While bankers view the renminbi as a huge opportunity they also recognise the risk of the small market seizing up, particularly as China retains extensive capital controls that limit the flow of the currency between the onshore and offshore markets. As a contingency move SWIFT, the global payments system, has recently put in place a mechanism allowing its members to complete trades with each other if the offshore renminbi market becomes illiquid. Multinationals such as Caterpillar and Tesco have also inserted disruption mechanism provisions into their documentation when issuing dim sum bonds.

According to data presented to the conference, between 2005 and 2011 the renminbi bond market was the fifth largest by currency in the world. In 2010 and 2011 the volume of issuance was nearly double that of sterling bonds. The onshore renminbi bond market is heavily regulated and doesn't allow foreign investors to invest in Chinese corporate debt in mainland China.

Deregulation led to the development of an offshore renminbi bond market, widely known as the dim sum market. The first foreign-issued dim sum bond by a corporate was in August 2010 by McDonald's, although the dim sum bond market remains a fraction of the size of the onshore market. In 2011 the volume of issuance of the onshore market was RMB7,000bn compared with a RMB180bn offshore market. However, the offshore bond market is growing fast and quintupled from 0.5% of total renminbi issuance in 2010 to 2.5% in 2011.

Injection of dim sum renminbi proceeds to the mainland is subject to regulatory approval. Shareholder loans and equity injections are two methods by which funds can be remitted to the mainland. Shareholder loans offer more flexibility in taking money out of China, for the principal amount only, as long as the borrower company has not used up its foreign debt quota (FDQ). Equity injection funds can only be taken out of China via dividends.

For both shareholder loans and equity injections State Administration of Foreign Exchange (SAFE) registration is needed. Additionally an equity injection requires the ministry of commerce (MOFCOM or MOC) to approve the registered capital of a foreign corporation's investments in China. This is not required for shareholder loans unless the company is applying to increase its registered capital in order to increase its FDQ. Bond issuers no longer need People's Bank of China approval to remit offshore renminbi proceeds to China as settlement banks now take the monitoring role. ■

IN BRIEF

- **The Financial Reporting Council** (FRC) has published a paper on its comply or explain approach to corporate governance. The paper notes a very high level of compliance with the UK corporate governance code and that a large majority of companies that do not comply with the code do provide a full explanation of their reasons. However, a minority do not and merely assert there is a difference. The FRC paper sets out clearly what is expected of corporates. A full copy of the report can be found at **http://bit.ly/wUoLkW**

- **US GAAP** (generally accepted accounting principles) is expected to converge with IFRS (International Financial Reporting Standards) according to Hans Hoogervorst, chairman of the International Accounting Standards Board (IASB). Speaking at the Economist CFO Summit in London in February, Hoogervorst told delegates that a decision was expected in the spring. He warned that he did not expect the US to adopt IFRS "lock, stock and barrel" within the next three years and that advice would be sought from the US Financial Accounting Standards Board (FASB).

- The long-awaited decision in the **Lehman Brothers case** on the treatment of money held by the UK investment bank for its clients has been published in a briefing note by Slaughter and May, an international law firm. The Supreme Court decided that those entitled to submit claims against the pool of client money include all those clients who were entitled to have their money treated as client money regardless of whether their money was segregated or can be identified in the firm's own accounts as having been so segregated. The briefing note is available at **http://bit.ly/xPdj54**

- **The Loan Market Association** (LMA) has amended its investment-grade user guides to primary documents and to LMA finance party default and market disruption clauses. Minor amendments have also been made to the investment-grade documents for multicurrency term and revolving facilities agreements, as well as single-currency term and revolving facilities agreements covering defaulting lender provisions, illegality, taxation and certain indemnities. For those in the leveraged market the LMA's senior multicurrency term and revolving facilities agreement has also been amended.