LEASES AND EUROZONE PLANS

Accounting for leases hasn't featured in the Technical Briefing for some time. But re-deliberations have been progressing behind the scenes, so I thought now was a good time to provide an update. Also back on the agenda is the potential for a unilateral secession by one country in the eurozone. Now is the time to dust off the *Euro Contingency Planning* briefing note and make sure that your contingency plan is still relevant.

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{ IN DEPTH }

AN UPDATE ON LEASES

The International Accounting Standards Board (IASB) has recently published an update on leases. This follows feedback that it received on proposals outlined in the May 2013 Exposure Draft (ED). Since March 2014, the IASB, together with the US Financial Accounting Standards Board (FASB), has re-deliberated on most aspects of the project. These re-deliberations are due to be finalised shortly and we expect to see a new standard on leases by the end of 2015.

The general approach to defining a lease has not changed from the 2013 ED. A lease involves the use of an identified asset, identified either implicitly or explicitly in the contract. There is no identified asset, however, if a supplier has a substantive right to substitute the asset. While the 2013 ED proposed that a right to substitute an asset was substantive if there were no economic barriers to substitution, there was concern about the subjective nature of what constitutes an economic barrier.

This has been replaced with a right to substitute an asset being substantive, if the supplier has the practical ability to substitute the asset *and* can benefit from the substitution, making the assessment more objective. Additionally, guidance now clarifies that if it is difficult for a customer to determine whether the supplier's right to substitute is substantive, then the customer assumes that it is not.

ILLUSTRATIONS: SHUTTERSTOCK/KMLMTZ66 (THIS PAGE); SHUTTERSTOCK/FJSTUDIO (OPPOSITE)

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There is no change in the concept of when a lease exists from the 2013 ED. The guidance has changed, however. A lease exists when the customer controls the use of an identified asset for a period of time. To control the use of an asset, a customer has both exclusive use of the asset and directs the use of the asset. Most respondents to the ED generally agreed the concept of exclusive use, but the additional guidance outlining circumstances in which a customer would not benefit from using an asset has been removed.

The guidance now clarifies which decisions give the customer the right to direct the use of an asset (ie typically decisions about how and for what purpose an asset is used); and that a directing entity would generally consider only decision-making rights about use during the contract and not decisions made in negotiating the contract.

Finally, a lessee shall separate the lease and service components of a contract and apply lease accounting only to the lease component. The guidance has now been amended to allow the use of estimates to simplify the separation of lease and service components, and it has introduced the option to account for the entire contract as a lease instead of separating lease and service components, in order to simplify application.

The latest developments can be found on the IASB's website at www.ifrs.org/Current-Projects/IASB-Projects/Leases/Documents/Leases-Project-Update-February-2015.pdf

"The development of Hong Kong as a regional corporate treasury centre hub would help to deepen our capital markets, including the offshore renminbi market"

{ INTERNATIONAL }

HONG KONG USES TAX BREAKS TO ATTRACT TREASURY CENTRES

The Hong Kong government is offering tax incentives to encourage multinational and mainland Chinese enterprises to set up regional corporate treasury centres in the Hong Kong Special Administrative Region of the People's Republic of China.

Delivering his 2015-16 Budget, financial secretary John Tsang said that the government would amend the Inland Revenue Ordinance to allow, under specified conditions, interest deductions under profits tax for corporate treasury centres. Profits tax for specified treasury activities would also be reduced by 50%.

A fact sheet from the Hong Kong Monetary Authority (HKMA), which is responsible for maintaining monetary and banking stability in the region, said that the changes were necessary because, in certain circumstances, interest expenses paid by a Hong Kong corporate treasury centre on borrowing from associates outside Hong Kong may not be deductible.

On the other hand, interest income received by a Hong Kong corporate treasury centre would generally be subject to profits tax, "resulting in a relatively less favourable taxation environment to conduct corporate treasury activities".

The move positions Hong Kong as a strong rival to other locations such as Singapore in terms of being a base for regional treasury hubs. "The development of Hong Kong as a regional corporate treasury centre hub would benefit the financial and business sectors, and help to deepen our capital markets, including the offshore renminbi market," HKMA said.

Corporate treasury centres are effectively in-house banks that facilitate intragroup borrowing and lending of money; cash and liquidity management; intragroup payments; processing of payments to vendors or suppliers; capital raising; and risk management.

For more information, see the HKMA fact sheet at http://tinyurl.com/jwmqnry

View the following technical updates and policy submissions at www.treasurers.org/technical and www.treasurers.org/events/webinars

ACT comments on UK proposals to remove WHT on private placement interest

Pan-European Corporate Private Placement Market Guide

ACT past webinars:

Banking relationships and operational efficiency

Cross-border RMB – embracing the new norm

{ WATCH THIS SPACE }

MANAGING THE UNMANAGEABLE

In December 2011, the ACT, together with Deloitte, published the briefing note *Euro Contingency Planning*. See www.treasurers.org/contingencyplanning/euro

At that time, the break-up of the euro, or a unilateral secession by one country, seemed a real possibility. As we all know, however, it didn't happen. Three years later, and the issue has once again been splashed across the tabloids. International creditors have extended Greece's second bailout for four months, but what happens after that is anyone's guess.

Euro Contingency Planning highlights a number of treasury-related impacts, some of which arise from the currency denomination of financial assets and liabilities or from FX exposures. These are cash, debt and credit facilities, and derivatives, as well as trade receivables and payables. For example, risks to euro cash held include the devaluation of the currency, trapped cash in countries that impose exchange controls and even the extreme case of an interruption to national banking systems. A change to the timing and pattern of cash flows may also impact cross-border cash-pooling structures and require additional credit lines.

The briefing note points out some of the risks and suggests possible mitigating actions. Now is the time to revisit your euro contingency plan to ensure that your organisation is prepared for any potential eurozone event.

{ TECHNICAL ROUND-UP }

MMFs, ISDA AND CROWDFUNDING

The European Economic and Monetary Affairs Committee has voted against the original proposal for constant net asset value money market funds (CNAV MMFs) to hold a 3% capital buffer. The latest recommendations include converting CNAV MMFs to a new class of MMFs, called lower volatility net asset value MMFs. These would only be allowed to invest in short-duration debt instruments (<90 days) and would contain a sunset clause requiring them to convert to variable net asset value funds within five years. The European Association of Corporate Treasurers' response can be found at http://tinyurl.com/m8nsz2h

A paper on improving the regulatory transparency of derivative trade reporting has been published by the International Swaps and Derivatives Association (ISDA). Regulatory mandates for trade reporting now exist in most key jurisdictions, but a lack of standardisation has led to an incomplete and inconsistent trade date being reported. Not only does this result in the inability to aggregate risk exposures on a global basis, but it also gives rise to corporates with derivatives dealt in different jurisdictions facing duplicative and conflicting trade reporting rules. The paper can be found at http://tinyurl.com/m4pm2ya

The European Banking Authority has recommended convergence of lending-based crowdfunding regulation across the EU, which should be based on existing EU law. The Payment Services Directive (2007/64/EC) has been identified as the most readily applicable legislation and can cover payment-related aspects, although the lending-related activities of crowdfunding are not covered by EU law. Further details can be found at http://tinyurl.com/lnekod3