Boards clash over objective of financial statements

The ASB and the IASB are split over the treatment of stewardship in corporate financial statements. While the Accounting Standards Board (ASB) says that stewardship should be maintained as a separate objective, the preliminary view of the International Accounting Standards Board (IASB) is that the main objective of financial statements is decision usefulness, which encompasses stewardship.

Andrew Lennard: Stewardship fundamental.

Speaking at the ACT's November conference on IAS39 and converging UK GAAP, Andrew Lennard, ASB's Director of Research, said that the concept of stewardship gave financial statements a historical perspective (but not necessarily historical cost); a completeness because it provided the foundation of a dialogue between management and shareholders; and reliability because it emphasised not just representational faithfulness but verifiability.

Lennard said annual accounts played a key part in the dialogue which benefits both managers and investors, and GAAP had to offer a credible reporting language.

● Meanwhile, the IASB's International Financial Reporting Interpretations Committee (IFRIC) has also issued an interpretation (IFRIC11 *IFRS 2 Group and Treasury Transactions*) that addresses how to apply IFRS2 to share-based payment arrangements involving an entity's own equity instruments or the equity instruments of another entity in the same group.

The interpretation requires share-based payment arrangements to be accounted for as equity-settled share-based payment transactions, however the equity instruments needed are obtained. ■

EACT signs SEPA deal

The European Associations of Corporate Treasurers (EACT) has signed a memorandum of understanding with SWIFT to provide a framework for co-operation. The framework will focus on Corporate Action on Standards (CAST), the EACT's market initiative, co-operation on implementing the Single Euro Payments Area (SEPA) and the development of other international payment standards. The EACT will not develop new standards, but use CAST projects to deliver recommendations on existing standards and requirements for new ones in areas such as the supply chain and trade financing. SWIFT will use these requirements in designing new standards in a flexible and non-proprietary way.

EACT Chairman Pierre Poncet said: "The EACT is keen to ensure that activities in areas to be standardised will be increasingly driven by the requirements of corporates. The CAST projects, which will provide strong support for SEPA implementation in European corporates, will offer the opportunity to compare business models, user requirements, data and message formats of existing standards, share information and exchange points of views on all major issues."

CAST includes projects to encourage greater standardisation and process automation in bank-to-corporate and corporate-to-corporate comms across the whole financial supply chain.

CAST is looking specifically at business models, best practices and standardisation in the areas of remittance information (and e-reconciliation), digital identity and e-invoicing. The goal is to define end-user requirements, compare them with any existing standards to detect shortcomings, and identify 'best of breed' solutions whenever a single solution is not practical or feasible. In addition, CAST addresses the specific issue of interoperability between electronic billing presentation and payment (EBPP) operators and certification authorities in Europe. ■

MiFID costs could soar

Costs associated with changes required under the Markets in Financial Instruments Directive (MiFID) will be higher than predicted, according to KPMG.

The accounting firm said that ongoing costs were likely to be higher than the £275m and £375m highlighted in a consultation paper the Financial Services Authority (FSA), published in October.

KPMG Director Bernadine Reese said: "The costs will include changes to the rules that relate to best execution, client categorisation and suitability and new requirements for appropriateness. Although this amount represents a significant cost to the industry, we believe that the cost of changes in some areas may, in fact, be far higher."

Costs related to requirements are likely to be passed on to clients. KPMG said that in many cases costs might outweigh benefits for both companies and their customers.

Reese said: "The FSA has had a difficult juggling act to perform. While it is trying to simplify business conduct requirements and has, to its credit, taken a pragmatic approach in trying to minimise the burden of implementing MiFID, this nonetheless represents another very significant set of regulatory changes."

Reese said that with just one year to go before implementation, the benefits for firms and investors were still unclear. ■

Cash survey results come in

JPMorgan Asset Management has just received the results of its global cash survey 2006. Now in its eighth year, the survey has attracted comments from more than 200 corporate treasurers from around the globe for this year's report, 85% of them replying online.

The survey, which has again been compiled with the ACT's help, continues to provide valuable insights into how the short-term investment management industry is developing, the products that treasurers are currently using and the performance and service levels now demanded.

The initial findings from this year's survey have already provided some interesting insights. For example, the use of pooled investment solutions for cash investment management continues to gain in popularity, particularly the use of money market funds, which are now used by more than 80% of the respondents who favour pooled solutions.

Full survey results will be available in January. ■

Barriers remain to effective ERM

Flawed enterprise risk management (ERM) programmes are prevalent in European companies, according to a recent study.

The study, by the ACT and financial services and risk management consultancy Mercer Oliver Wyman, found multiple barriers to the effective implementation and use of ERM programmes in UK and European companies.

ERM has become increasingly popular among European companies in recent years. Risk has moved up the corporate agenda as business volatility has increased, and the recent wave of governance scandals has prompted regulators and shareholders to scrutinise risk and control frameworks more closely.

The study – drawn from 30 in-depth interviews with European corporate treasurers plus feedback from the ACT and Mercer Oliver Wyman's client experience – focused on the role of the treasurer in implementing ERM solutions. With chief financial officers (CFOs) increasingly hard-pressed to deliver against expanding responsibilities, not only does ERM fit well with the capabilities built up within treasury departments, but it is also the answer to a clear business need.

THE KEY FINDINGS OF THE STUDY

- In many companies, ERM is still an exercise in 'box-ticking', with compliance, audit and other control functions taking responsibility for it;
- While company boards are far more risk-aware, they remain preoccupied with the need to comply with corporate governance codes rather than optimising risk-return through ERM;
- Although there are examples of leading ERM practices in the UK, the research suggests that UK plc is at risk of being left behind by its continental European peers; and
- Treasurers, for the most part, have not yet been sufficiently integrated into ERM programmes to realise their full potential – even though many of the skills needed to manage risk across the corporate reside within treasury.

But the study found that only a handful of treasurers had truly engaged with ERM. One reason was that ERM, in many cases, had been defined not by business logic, or even genuine prudential requirements, but as a reaction to the raft of regulation introduced after the governance scandals earlier this decade. As a result, the leadership of ERM programmes was too often delegated to compliance, audit, legal and other non-financial functions, and ERM devolved into an exercise in box-ticking.

This is to the detriment of the ERM programme, which is unlikely to be fully effective without leveraging treasurers' financial risk expertise, quantitative skills and markets access.

There is nevertheless evidence of a growing trend toward an integrated, quantitative approach in some ERM programmes. When this crystallises more widely, treasurers will be called on to step up to the challenge. They can begin by trying to break down organisational resistance to ERM – dismantling the 'silos' in which risk is managed and stressing the value implications of better risk management. ■

The Regional Conference and Networking Events: Fundamental Treasury Topics

The ACT is delighted to announce the next date in a new series of networking conferences sponsored by Lloyds TSB. The conferences will provide a regional platform to enhance the level of awareness of best treasury practice.

Midlands Regional Groups:
1 March 2007, Birmingham

Additional regions to be announced

Previous speakers include:

Drax Power
IMI
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