CHANGING TIMES

Looking to the year ahead, there are many differentiating economic outlooks and numerous political elections happening around the world. These will keep treasurers on their toes. When will interest rates increase? Will exchange rates be as volatile this year? What impact would a change of political party have on your business, industry and country? All answers on a postcard, please!

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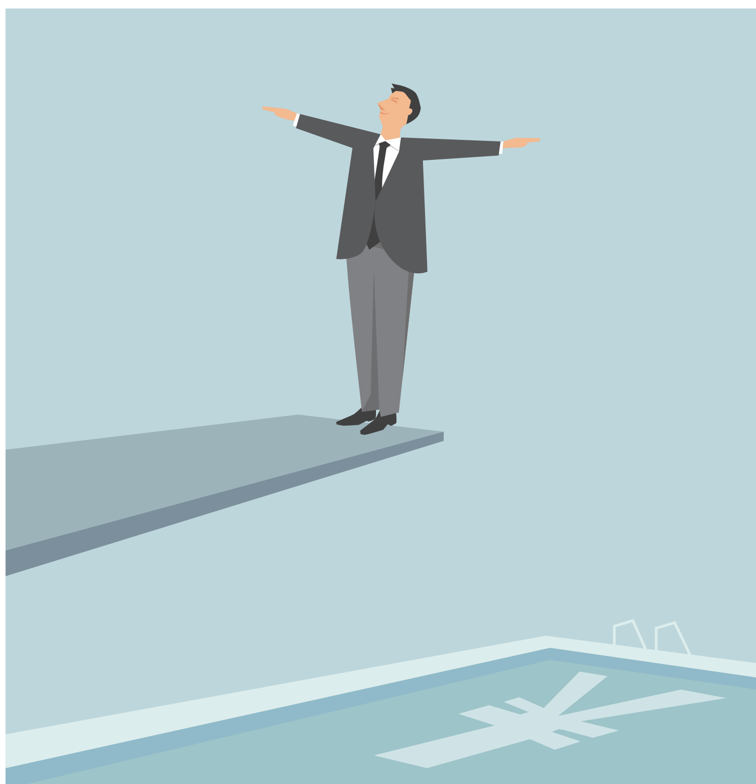
{ IN DEPTH }

NEW RULES ON RENMINBI CASH POOLING

The People's Bank of China (PBOC) recently issued a notice on how multinationals can implement cross-border renminbi cash pools. These new rules allow eligible multinationals to use two-way, cross-border renminbi cash pools nationwide without necessarily having to be part of the Shanghai free-trade zone (FTZ).

Previously, just corporates with an entity established in the FTZ were able to establish a renminbi cross-border cash pool in China. Corporates located in the Shanghai FTZ can choose either to comply with these nationwide rules or with the rules on cross-border renminbi cash pools for entities in the Shanghai FTZ. Once a choice has been made, it can't be changed.

The PBOC notice provides definitions of what constitutes an eligible multinational, a domestic participating company and an overseas participating company. For example, a domestic participating company of the cash pool should have been in operation for more than three years, not be in the property industry, not be included in the financing platform of local governments, and not be listed on the high-supervision list of the export and trade corporates for renminbi settlement (provisions 2 and 3).



A restriction is that funds in the pool cannot be used for securities investment, financial derivatives investment or property investment (where the property is not used by the company itself), or for loans to companies external to the group (provision 7).

Additionally, net cross-border renminbi inflows into the cash pool have an interim upper limit of 10% of the owner's total equity in the cash pool. This is calculated as the sum of the owner's equity in each domestic participating company, multiplied by the percentage of shares that the multinational holds in each respective domestic participating company. There is no limit set for renminbi cross-border outflows (provisions 8 and 9).

> A multinational can open renminbi settlement accounts in multiple banks at the place where the multinational is registered

A multinational can open renminbi settlement accounts in multiple banks at the place where the multinational is registered. Accounts can be opened by the organising entity or by other member firms. In principle, just one cross-border, two-way renminbi cash pool can be established. It is possible, however, to apply to the PBOC if more than one cash pool is needed for operational reasons.

One of the first businesses to implement a renminbi cash pool outside the Shanghai FTZ was Arup Group, a multinational professional services firm headquartered in the UK. Arup's renminbi cash pool automatically sweeps balances in excess of RMB 40m from Shanghai to London, where it is notionally pooled within its single global cash pool. When balances in China fall below RMB 40m, the reverse happens and funds are automatically swept back to China.

Richard Abigail, group treasurer, comments: "While it took nearly a year to set up because we were one of the first, if we were to do it today, it could be achieved in a couple of months."

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

Article 8d requires that where an issuer intends to appoint at least two credit agencies, that they consider using one small credit rating agency

{ INTERNATIONAL }

A REMINDER ON CREDIT RATING AGENCIES

The EU regulation on credit rating agencies has requirements that apply to issuers in the EU. See bit.ly/credit-rating

Article 8d requires that where an issuer intends to appoint at least two credit agencies for the credit rating of the same issuance or entity, that they consider using one small credit rating agency. 'Small' means having no more than a 10% share of the market in the total universe of agencies that the issuer considers as capable of rating the relevant issuance or entity. The European Securities and Markets Authority (ESMA) publishes an annual list of credit rating agency market share calculations for this purpose. See the latest at http://tinyurl.com/mffkgwe. Where an issuer decides not to use a small credit rating agency, this decision must be documented.

There are pros and cons to using both large and small credit rating agencies. Alan Reid, from DBRS Ratings, a small agency with 1.3% of the market, according to ESMA's calculation, states: "Smaller credit rating agencies are more nimble, while still being held accountable to the same standards as larger credit rating agencies."

Meanwhile, Martin Winn from Standard & Poor's, the largest credit rating agency on ESMA's list, with a 39.7% market share, comments: "Larger credit rating agencies' coverage is very broad and we rate on a consistent global scale, so international investors benefit from a benchmark that is broadly comparable across markets and asset classes."

Furthermore, Article 8c provides that where an issuer intends to solicit a credit rating for a structured finance instrument, it needs to appoint at least two credit rating agencies to provide credit ratings independently of each other. Corporates don't tend to issue structured finance instruments, of course.

In the UK, the Financial Conduct Authority is responsible for investigating and enforcing against any breaches of the regulation by UK issuers. It has asked the ACT to remind our members of these issuer requirements.

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

ACT responds to Libor evolution position paper

Benchmarks Supplement, November 2014: The ACT Borrower's Guide to LMA Loan Documentation for Investment Grade Borrowers

EACT letter regarding CVA exemption

ACT past webinar: Successful commodity risk management

A reminder of *The Treasurer's Wiki*: www.treasurers.org/wiki

{ WATCH THIS SPACE }

THE END OF RPI?

Last month, the UK Statistics Authority (UKSA) published a report on UK consumer price statistics. For more, see http://tinyurl.com/p6fkzxz

Institute for Fiscal Studies director Paul Johnson began the report in May 2013. One of the 24 recommendations is phasing out the production of the retail prices index (RPI). This is based on the national statistician's recent decision that RPI should be considered a legacy measure to be used only where it is contractually required. The ACT will be writing to the UKSA, stressing that many RPI-linked contracts are long term and the disruption to contracts could be widespread. In November 2012, the ACT opposed proposed changes to the method of calculating RPI for the same reason. See www.treasurers.org/node/8581

The UKSA is expected to launch a consultation in summer 2015 and then publish a response.

{ TECHNICAL ROUND-UP }

RTGS, RATINGS AND BENCHMARK RATES

We understand that the Bank of England is looking at extending the cut-off times for sterling real-time gross settlement (RTGS). The RTGS system settles for all the major sterling interbank payment systems and schemes. Banks may start to speculate on this with corporates.

The UK government has incentivised the development of the private placement market by providing an exemption from withholding tax on interest on qualifying private placements. The ACT welcomes this tax treatment change; one which the UK PP15+ working group (chaired by the ACT) recommended two years ago in its report. See www.treasurers.org/node/8624. The ACT hopes to see some modifications to the recently published conditions for this incentive to be effective, however.

Rating agency Moody's has recently revised its outlook for money market fund (MMF) ratings from stable to negative, with the number of Aaa-rated MMFs likely to decrease in 2015. Moody's comments: "MMFs will struggle to maintain the highest credit and stability profiles in 2015 due to an ongoing supply and demand imbalance, low-to-negative net yields of funds and elevated asset flow volatility."

The ACT's December e-newsletter noted ICE Benchmark Administration Limited's consultation paper on changes to Libor. See http://tinyurl.com/ovnp3n5. We have responded to the consultation (see www.treasurers.org/node/10783) and we are broadly supportive of the changes, but have expressed some concerns. Among these are:

- Using rates reported from funding centres other than London that "could entail using transactions from domestic as well as offshore funding centres for each currency". The last financial crisis saw material differences in bank funding costs between Europe and New York.
- Including transactions undertaken since the previous submission rather than just taking prior-day rates into account in estimating the rate "just prior to 11am London time", which is what happens at present.