

Agenda

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{ CONTEXT OF TREASURY }

Lease accounting reform to bring \$3 trillion onto corporate balance sheets

Corporates in more than 100 countries will be forced to bring an estimated \$3 trillion of leases onto the balance sheet in a major overhaul of accounting procedures that has implications for lending arrangements, dividend policies, tax planning and share prices.

The International Accounting Standards Board (IASB) recently published IFRS 16 *Leases*. The standard requires quoted companies to bring operating leases onto the balance sheet and, according to the IASB, will make companies' obligations more transparent and eliminate the guesswork and

revisions that investors, analysts and rating agencies can make when assessing lease obligations.

Companies with significant lease arrangements, such as airlines, retailers, travel and leisure operators, and manufacturers are expected to be among those most deeply impacted. But all companies with significant numbers of material off-balance-sheet leases will need to prepare for the implementation of the standard from January 2019.

While corporates will have time to adjust to the new regime, with the new rules potentially materially increasing assets and liabilities on

the balance sheet, they will need to consider revising bank covenants in the lead up to adopting IFRS 16.

IFRS 16 is the third in a series of reforms since the financial crisis, aimed at improving transparency in corporate reporting. It follows IFRS 15 *Revenue from Contracts with Customers*, and IFRS 9 *Financial Instruments*, both of which will come into effect from January 2018. Before European companies can use the new standard, IFRS 16 will need to be ratified by the EU.

The FASB, the US accounting standard setter, is due to publish an equivalent standard shortly.

"I'm expecting 2016 to deliver an even tougher environment than 2015. Prices and margins across commodities markets will continue to feel the squeeze."

Sam Walsh, CEO at Rio Tinto, has low expectations for the year ahead, following a "brutal" year in 2015.

SOURCE: THE TIMES, 15 JANUARY 2016

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{ QUESTIONS YOUR FD IS LIKELY TO ASK THIS MONTH }

RENMINBI DEVALUATION

What's behind the latest controversy in China?

Many commentators and investors believe the Chinese government and securities regulators have deliberately intervened to devalue the renminbi in reaction to China's weakening economic growth. This would have the effect of making it cheaper for foreign consumers to buy Chinese goods, while conversely making it more expensive for Chinese consumers to buy foreign-made imports. The Chinese account is that the yuan's recent fall is not the result of a direct intervention and if they have erred it is because they have failed to communicate adequately with the global investment community. Either way, the renminbi's fall in early 2016

prompted panic in foreign exchanges and stock markets.

What was the verdict?

Investors have reacted with caution, withdrawing an unprecedented amount of capital from China, amid fear the market there could go into freefall. The other side of this is that China's initial growth phase and its need to construct an industrial infrastructure is slowing. So global energy and commodity giants have lost ground, which in turn has sparked the global rout in equities, with many stock markets entering bear market territory.

Should we be concerned about China's fortunes?

Probably not; it's true that some of the economic indicators have missed

forecasts, but not by much.

China posted GDP growth of around 7% for last year and it's forecast to slow to 6.5% for 2016.

But it still accounts for around one-third of global growth.

So what's the balance of opinion?

Apart from a concern that data out of Shanghai is not entirely reliable, most commentators seem to agree that while China's economic performance is not as stellar as it once was, it is still growing, bringing China in line with the rest of the world. In the past four years, growth rates for the global economy have remained well behind pre-1998 levels. Slower growth is now normal, and a feature of the landscape that we somehow still struggle to grasp.



"We hope [the EC's Cumulative Impact Assessment] will help eliminate measures that threaten the real economy. In this I would include the unnecessary proposals to introduce bank structural reform and a financial transaction tax, which run counter to the growth agenda."

Simon Lewis, CEO of the Association for Financial Markets in Europe, warns against over-regulation.

SOURCE: THE TELEGRAPH, 20 JANUARY 2016

27%

of SMEs exported to China in the second half of 2015. For the first time this was higher than the proportion exporting to the US (23.7%).

27.2%

Average proportion of revenues SMEs gain from exports.



54.9%

of SMEs are increasing the countries they are exporting to and are looking east.

76%

of SMEs export to Europe, which remains the predominant market for UK companies.



41.3%

of UK SMEs have seen their exports grow in the past 12 months.

“The third leg of the debt super-cycle does seem to be upon us. Anyone who is still telling the ‘this time is different’ story for China has their head in the sand.”

Professor Kenneth Rogoff, Harvard University, speaking at the World Economic Forum in Davos.



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FTSE 250 defined benefit pensions schemes may be heading for extinction

> The remaining defined benefit schemes offered by FTSE 250 companies could be extinct within a year as tough economic conditions, rising costs and increasingly aggressive regulations take their toll.

According to research for JLT Employee Benefits (JLT EB), total disclosed pension liabilities among the FTSE 250 surged to a record £81bn at 30 June 2015 – up from £75bn a year earlier.

Companies have tried to stem the growth of their pensions liabilities by closing DB schemes to new entrants, and sometimes all members, but this has had little impact.

Changes to economic conditions and increased life expectancy of pensioners have contributed to the growth in liabilities.

According to JLT, some 14 FTSE 250 companies have disclosed pension liabilities that are greater than their stock market value. FirstGroup, Go-Ahead Group, Phoenix Group, Balfour Beatty and Carillion are among those to have disclosed pension liabilities that are more than double the value of their equity.

The total deficit for FTSE 250 pension schemes at 30 June 2015 was estimated to be £12bn

– £3bn worse than a year ago. Only 49 companies are still providing more than a handful of current employees with DB benefits. JLT estimates DB pension provision has fallen by 16% in the last year alone.

Charles Cowling, director of JLT EB, said: “The ongoing spend and service costs on DB pensions before any allowance for deficit spending is a burden that many boardrooms would like to remove altogether. We believe the majority of FTSE 250 companies will cease DB pension provision to all employees within 12 months.”

Brexit: tally of US banks backing ‘remain in’ campaign rises to four

> Another three US banks have joined Goldman Sachs in donating funds to the campaigning group, Britain Stronger in Europe, a report in the *Financial Times* has said.

The new donors, JPMorgan, Morgan Stanley and Bank of America will commit substantial funds to the campaign, but are not expected to match the £500,000 that Goldman Sachs has given.

The campaign would not be drawn on the specifics of the donations, said the paper, but will face a legal obligation to publish a full list of donors in the spring.

The US banks are reputedly concerned about the administrative burden an exit from the EU would bring, including vast amounts of contract renegotiations covering derivatives, loan agreements and credit default swaps. US bankers have gone on record about their fears. Morgan Stanley’s president, Colm Kelleher, has argued publicly that an exit would bring about a significant backlash against London as a global financial centre.

The Vote Leave campaign, meanwhile, has received significant funding from hedge fund chiefs. Leaders of all kinds of financial institutions are likely to provide significant funds for both campaign groups.

The four banks plus Citibank employ 30,000 workers in their London investment divisions.



0.4%

Greece’s inflation figure for December; its first positive inflation reading since 2013.

141%

Venezuela’s official inflation figure. Commentators argue that 200% may be more accurate.

\$0.5 trillion

The estimated aggregate value of technology unicorns at the end of 2015, according to M&A firm Magister Advisors.

37%

The proportion of UK pension schemes reporting instances of fraud in 2015, up from 17% in 2013, according to a survey by accountancy firm RSM.

\$3.6bn

The level of venture capital funding received by UK technology companies – a 70% annual rise, according to CB Insights.

0.75%

The deposit interest rate in Switzerland. Taxpayers are being encouraged to pay their tax bills as late as possible so that authorities aren’t penalised by holding cash.