A variety of approaches to EU Savings Directive

We have heard that issuers in the bond markets are taking a variety of approaches to the drafting of gross-up clauses under the new regime. This is worrying, particularly as the International Primary Markets Association (IPMA) has produced guidelines for its investment bank members on a recommended approach. It should be in the interests of issuers and investors to have a consistent approach in their documentation therefore issuers are recommended to check with their advisers whether the guidelines are being followed.

Issuers are also reminded that an expanded version of Stephen Reisbach's article (*EU Savings Directive – A Cause for Concern?*) is on the website (access via the hotlink in Technical Update on the web – www.treasurers.org/what/onsite). ■

Redenomination of share capital

A member has approached the Association pointing out that some UK companies have share capital denominated in legacy currencies and so will have to redenominate their share capital before the end of this year. The City Euro Group, sponsored by the Bank of England, has drafted some guidelines on the redenomination of share capital from sterling to euro, but these are not likely to be published for some time. Anyone looking for advice on this issue can refer to the Technical Update May 2001* on the Association website. ■

Some good news for bond and CP issuers

The new Financial Services and Markets Act 2000 Regulated Activities Order 2001 has provided the opportunity for a change in the law that significantly simplifies the procedures which need to be followed on the issue of corporate debt instruments. The Government responded to lobbying by City institutions to simplify some of the complex regulations which arose from the Banking Act of 1979. This Act introduced a ban on the acceptance of deposits by anyone other than an authorised institution. Compliance with it absorbs a great deal of time and energy for those practising in the capital markets. In addition, the complexity and expense involved has been seen as a negative factor for the position of London as the centre of the euro markets. ■

Will accounting drive hedging strategies?

Accounting is becoming an issue of increasing importance to treasurers, and changes are coming from a number of directions.

Although all companies should be familiar with FRS 13 by now, it is clear from the technical queries being received by the Association that some are still unsure of how to implement it in practice. In addition, the Financial Reporting Review Panel commented recently that some companies are failing to implement FRS 13 correctly, claiming that they have no relevant items to report on when they clearly have.

If companies are experiencing problems with FRS 13, then they had better prepare to upgrade their treasury accounting knowledge. As noted in last month's Hotline, it is entirely possible that UK listed companies will have to implement IAS 39 from 2004 onwards and this may be quickly followed by a change of approach, as exemplified by the recently published proposals for accounting, for financial instruments (the Joint Working Group (JWG) proposals).

In preparing the Association's response to the JWG proposals, one of the issues that keeps coming up is whether companies will change their hedging policies to avoid the volatility likely to arise from fair value accounting. We would be extremely concerned if companies did allow accounting to determine their hedging strategies. Sadly, this seems to be a likely outcome. PricewaterhouseCoopers has recently published a survey of large companies in the Nordic countries (Nordic Corporate Treasury Benchmarking Survey 2001). These countries are particularly interesting because of the high percentage of companies, about two-thirds of the sample, reporting under US GAAP or IAS and therefore applying FAS 133 or IAS 39. The survey showed that 61% of respondents claimed that accounting had a significant impact on their treasury policies. The report remarks: "The overall result is not surprising as many companies have implemented strategies to ensure minimum accounting volatility. From a group-wide risk management point of view, however, such strategies may increase risk." Quite so. ■

Hotline is prepared by Caroline Bradley, the Association's Technical Officer. For any comments or new items, please contact her at cbradley@treasurers.co.uk. Additional technical updates are available on the website: www.treasurers.org.