THIS MONTH

LETTER OF FAREWELL

As one of the joint authors of these technical pages for some 11 years, I will take the liberty of including a personal message this month since I am retiring at the end of June. The professionalism of treasurers and the ACT itself has grown massively since I first became a member in 1984, and it has been great, with the help of my peers, to have been part of that. My thanks to all and, as a future 'retired member', I look forward to following the further development of the ACT.

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{ IN DEPTH }

UPDATE ON IASB PROJECTS

Leases

Following the latest exposure draft (ED) in May 2013, the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) continue to re-deliberate on changes to IFRS 17, *Lease Accounting*. While the re-deliberations focus on simplification and the clarity of concepts and definitions, the central point of putting operating leases on the balance sheet remains.

The latest discussions show that the IASB supports a single model (Type A) for lessee accounting, while the FASB supports a dual model (Type A for plant and equipment, and Type B for property), as per the latest ED. Type A accelerates expense recognition whereas Type B produces a more constant rental charge similar to IAS 17. There is now a risk that there could be a difference between the final standards.

The IASB supports a 'small ticket items' exemption, but further research is being undertaken to determine the types of assets that might qualify. There is also a welcome change to the definition of 'short-term leases', which is likely to result in many more leases falling within the scope of this exemption. Leases with a maximum possible term (including options) of 12 months or less will now only include lease options where it is reasonably certain that they will be exercised.

For lessor accounting, the IASB has decided to eliminate the receivable and residual approach in the 2013 ED and instead have an approach similar to the current finance lease and operating lease accounting for lessors.

A final lease accounting standard is expected to be released in 2015, with an effective date unlikely to be before 2018.

Macro hedging

The final stages of replacing IAS 39, *Financial Instruments: Recognition and Measurement* with new financial instruments accounting standard IFRS 9, *Financial Instruments* are almost complete. But the macro hedging component is now being treated as a separate project.

On 17 April, the IASB published a discussion paper on accounting for macro hedging, putting forward a proposed approach to accounting for an entity's dynamic risk management activities – the portfolio revaluation approach (PRA). The comment period closes on 17 October 2014 and the discussion paper can be found at http://tinyurl.com/jwlqaly. Please read and respond either to the IASB or to the ACT policy and technical team at technical@treasurers.org

IFRS 9

IFRS 9 is expected to be published late in 2014 (with a start date of 1 January 2018). When transitioning from IAS 39 to IFRS 9, the default is prospective application of the IFRS 9 model. Exceptions do exist, however. For example, the new method of accounting for the time value of options under IFRS 9 must be applied retrospectively. Treasurers should also reconsider hedges that either failed hedge effectiveness or were not allowed under IAS 39 to determine whether they can and want to hedge account these transactions going forward.

Conceptual Framework

The Conceptual Framework sets out the concepts that underlie the preparation and presentation of financial statements, for use by the IASB in setting accounting standards and preparers in applying those standards. In July 2013, the IASB issued a discussion paper entitled *A Review of the Conceptual Framework for Financial Reporting*. Tentative decisions to date include keeping the existing binary distinction of liabilities and equity with further work needed to develop definitions of each; and developing a distinction between profit or loss and other comprehensive income by focusing on the role of profit or loss as the primary source of information about an entity's performance.

Following ongoing re-deliberations, an ED is expected in Q4 2014.

Initial margin can be calculated on a standardised approach based on a predefined schedule applied to the notional amount

{ WATCH THIS SPACE }

NEW GROUND RULES ON MARGINS

Under the European Market Infrastructure Regulation (EMIR), a non-financial counterparty above the clearing threshold (NFC+) will be required to clear its derivatives and put up margin with the central counterparty (CCP). But if no CCP clears the derivative in question, then bilateral margin will be required instead. An NFC- (non-financial counterparty below the clearing threshold) is not obliged by law to get involved with margining, but it may yet turn out that the ground rules now being proposed by the European Securities and Markets Authority (ESMA) in its Regulatory Technical Standards (RTS) will set a precedent on the practices around margining if parties decide it is beneficial to go down the bilateral margining route.

The ESMA draft RTS prescribe variation margin to cover the daily mark-to-market changes in the derivative exposure, plus initial margin to cover the intraday risk that variation margin is insufficient or that, on default, it takes some days to realise the collateral.

Initial margin can be calculated on a standardised approach based on a predefined schedule applied to the notional amount or using an internal modelling approach based on exposures. Models are required to be set at a confidence level of 99%, with a risk horizon of at least 10 days and calibrated on a historical period of at least three years, including financial stress. Parties may agree not to collect initial margin on physically settled FX forwards and swaps.

For those in the NFC+ category that are legally obliged to margin, there is an extended phase-in period, with the rules only starting for the very largest entities in December 2015. Even after December 2018, the mandatory margin will only apply to those with an OTC derivative exposure above €8bn in gross notional outstanding.

NEW ON THE WEB

ACT updated briefing note on EMIR

ACT updated briefing note on *Practical steps to investing in repos*

ACT past webinar: A fresh approach to interest rate risk management

ACT submission to European Commission on defining FX spot for EMIR

{ INTERNATIONAL }

EUROPE MAKES PROGRESS ON MARKET ABUSE

Just prior to the European elections, the European Parliament reached final approval of multiple pieces of long-running legislation. The revised Market Abuse Directive and new Market Abuse Regulation will be published in the *Official Journal* in June with 24 months for national implementation. These will broaden the market abuse rule to cover more instruments and will include benchmark manipulation. There will be a harmonised framework for criminal sanctions, including the criminalisation of inciting or aiding and abetting market abuse.

The new Market in Financial Instruments Directive (MiFID2) and its accompanying Regulation (MiFIR) just need final approval from the European Council and should come into application by the end of 2016. Over and above the existing rules for equities, non-equities such as bonds, emission allowances or derivatives will have to be traded on organised venues categorised as regulated markets multilateral trading facilities or organised trading facilities. Most non-financial companies will not be subject to MiFID2/MiFIR as long as they are dealing on their own account and not providing an investment service or the service is ancillary to their main business. For those in scope, there are also new position limits on commodity derivatives, controls around algorithmic trading and requirements for providing information to clients.

{ TECHNICAL ROUND-UP }

PAYMENTS, FTT AND LIQUIDITY COVERAGE

A report entitled *Card payments in Europe – a renewed focus on SEPA for cards* has been published by the European Central Bank. The aim of the Single Euro Payments Area (SEPA) is a harmonised, competitive and innovative European card payments area. This follows the near completion of migration to SEPA credit transfers and direct debits. For more, see http://tinyurl.com/osfcqur

The European Court of Justice has rejected the UK's arguments over the extraterritorial impact of the financial transaction tax (FTT). Details of exactly how the tax will work are yet to be agreed, but 10 member states have agreed an implementation date of 1 January 2016. The ACT continues to have serious concerns over the FTT that has been proposed to date. These are summarised in the European Association of Corporate Treasurers' position paper. See www.treasurers.org/node/9078

The Basel Committee on Banking Supervision has published a set of frequently asked questions on Basel III's liquidity coverage ratio. Refer to www.bis.org/publ/bcbs284.pdf

The International Organization of Securities Commissions has published a working paper called *Corporate Bond Markets: A Global Perspective*. The report presents findings from an in-depth study of the corporate bond markets since 2000. Refer to http://tinyurl.com/ns9np6g

In March 2014, the Chinese renminbi reached the position of being the seventh-ranked global payments currency with a share of 1.62% of payments. It is close to overtaking the Canadian dollar at 1.83% and the Australian dollar at 1.84%. For more, see the SWIFT RMB Monthly Tracker at www.swift.com/products_services/renminbi_reports

The Financial Reporting Council has published a consultation on changes to the *UK Corporate Governance Code*. Proposed changes include the remuneration of boards being more closely related to the long-term success of the company and companies having the ability to claw back variable pay when warranted. It is also proposed that the annual report should include two distinct statements, one of going concern on an accounting basis and the other a statement of ongoing viability. See http://tinyurl.com/osvu4sh