ACT ANNUAL CONFERENCE

Once again, the ACT's Annual Conference was a great opportunity to renew old acquaintances and ensure that I was up to date on the latest topics affecting corporate treasurers. The regulatory theme kept recurring, but strategy, funding, emerging markets and risk were also discussed. The Institutional Money Market Funds Association addressed the future of money market funds and the latest push by the European Commission to ban constant net asset value funds is summarised below.

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{ IN DEPTH }

NEW AND IMPROVED SWIFT CORPORATE ACCESS GROUP

For some years, SWIFT UK has, in common with user groups in some other countries, sponsored a biannual forum called the Corporate Access Group (CAG). The function of this group was (and remains) to establish a forum in which the priorities and concerns of its corporate members could be identified, discussed and fed back to the messaging service provider.

To strengthen the corporate voice in the forum, SWIFT UK recently launched a feedback group with attendance restricted to corporate members plus the ACT. SWIFT UK provides the venue, catering and administrative support.

The first meeting of this group took place on 19 April at SWIFT's premises in London. It was attended by 11 corporates and Adrian Rodgers, founder of treasury consultancy ARC Solutions, represented the ACT. The corporate members came from a varied selection of industries and included some FTSE 100 companies.

André Casterman, SWIFT's global head of corporate and supply chain markets, updated the group on the current status of corporate membership and what is happening with various initiatives that are of interest to corporates. These include initiatives to help with Single Euro Payments Area compliance, format standardisation and 3SKey. 3SKey is digital identity technology that enables corporates to use a single security token for a variety of bank communications.

Next came a discussion during which the corporates shared their experiences of SWIFT membership to date. Since the length of experience ranged from seven years to around seven weeks, it was a good opportunity to understand the diversity of perspectives from different corporates, and also to focus on common experiences – both good and bad. Topics raised included (among others) the usefulness of service bureaux as a source of support and expertise, the lack of uniformity between banks in SWIFT onboarding and message formatting, and how to support corporates as they enter the world of SWIFT, including dealing with specific technical terminology.

The discussions were documented and will be fed back to the UK CAG for its consideration. There were various suggestions for improvement, which included the need for SWIFT to acquire a deeper understanding of the issues that are specific to corporates, and to provide more tailoring of support resources to meet corporate requirements.

The next meeting is planned for the autumn and will focus on specific issues of interest to the group. If there are companies that are SWIFT members and that are interested in attending, please contact the ACT policy and technical team. Email technical@treasurers.org

It was a good opportunity to understand the diversity of perspectives from different corporates

YOUR SHOUT

Have you (or are you aware of an organisation that has) stopped using Libor as the reference or benchmark rate in recent funding or derivative transactions? If so, what alternative rate did you or they choose? Email: technical@treasurers.org

{ INTERNATIONAL }

MMF REFORM PROPOSALS

The European Commission (EC) has leaked proposals on reforming constant net asset value money market funds (CNAV MMFs). It plans to join other international authorities in trying to ban CNAV MMFs unless these funds build up a buffer to absorb losses and take measures to improve their resilience against a run on the funds.

This move follows the proposed crackdown on MMFs by the International Organization of Securities Commissions (IOSCO) and the US Financial Stability Oversight Council (FSOC). For more, see pages 10-11 of *The Treasurer*, December 2012/January 2013 and also March 2013.

While the European regulation is apparently heading in the same direction as the plans put forward by IOSCO and FSOC, it seemingly includes additional new concepts to restrict MMFs' investments even further. Under the EC's proposals, an MMF would only be permitted to invest in one or more of the following:

- Money market instruments;
- Deposits with credit institutions;
- Financial derivatives; and
- Reverse repurchase agreements. In addition, assets received by the MMF under a reverse repo must be money market instruments.

So an MMF would not be permitted to use repurchase agreements over long-term instruments, hitting this market for bank funding.

Additionally, if a CNAV MMF's net asset value buffer falls below the required level of 3% by 10bps within one month, the MMF shall cease to be a CNAV MMF. And, if that wasn't enough, an MMF would not be permitted to receive external support other than in the form of a NAV buffer or to solicit a credit rating.

View the following technical updates, blogs and policy submissions at www.treasurers.org

Update of briefing note on European regulation of OTC derivatives

Withdrawal of the Loan Market Association's Mandatory Costs Schedule

Apple Inc sheds light on Libor (blog by policy and technical director John Grout)

{ WATCH THIS SPACE }

LMA WITHDRAWS MANDATORY COSTS SCHEDULE

The Loan Market Association (LMA) withdrew the Mandatory Costs Schedule from its website on 1 April 2013. The schedule provided a means of calculating certain regulatory costs incurred by lenders.

In January 2013, the LMA circulated a note highlighting that agent banks were experiencing difficulties in calculating mandatory costs as set out in the LMA Facility Agreements. This was due to the Mandatory Costs Schedule being formulated at a time when loan syndicates were smaller and consisted of a less diverse community.

Banks and businesses will need to decide how they treat mandatory costs. If the Mandatory Costs Schedule is removed from the facility agreement, then the assumed costs may be built into pricing rather than appearing as a separate item. Corporate treasurers should ensure that the costs previously within the scope of mandatory costs are not capable of being the subject of a further claim under any other provision. Alternatively, a custom-made Mandatory Costs Schedule could be agreed between parties.

Mandatory costs are discussed in the *ACT Borrower's Guide to LMA Documentation for Investment Grade Borrowers*.

{ TECHNICAL ROUND-UP }

FTT, FAIR VALUE AND FRS

Key concerns regarding how the proposed financial transaction tax (FTT) will impact the real economy have been outlined in a position paper drafted by the European Association of Corporate Treasurers for discussion with the European Commission. In addition to increasing costs of funding, the FTT is likely to reduce liquidity in secondary markets. Corporate hedging will also become more expensive since derivatives are taxed. Meanwhile, several treasury and finance companies will be directly liable for FTT because the proposed definition of a financial institution is extremely broad.

IFRS 13, *Fair Value Measurement*, applies to annual periods beginning on or after 1 January 2013. It aims to set out a single IFRS framework for measuring fair value, including all the fair value disclosures that used to be in IFRS 7, *Financial Instruments: Disclosures*, and adds to them. Debit valuation adjustments (DVAs) will have a big impact on banks that don't currently take into account DVA in their fair values. The rules will also affect corporates that have large liability positions at fair value, such as inflation swaps and large cross-currency swap positions. Treasurers should review their valuation practices to make sure the DVA effect is considered. Those that rely on bank valuations may need to adjust for this accordingly.

Simplified financial reporting for unlisted companies and subsidiaries of listed companies is provided in the new accounting standard FRS 102, *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, which was recently published by the UK's Financial Reporting Council. FRS 102 is based on the IASB's IFRS for SMEs, but it has been significantly amended. It addresses all of the recognition, presentation and disclosure requirements for entities using this standard. All entities currently reporting under UK Generally Accepted Accounting Practice (GAAP) or Irish GAAP will be required to report under either IFRS or FRS 102 for financial years beginning on or after 1 January 2015, with early adoption permitted. Small entities currently eligible to apply the Financial Reporting Standard for Smaller Entities can continue to do so.