IN BRIEF

The minimum rights issue subscription period has been reduced from 21 calendar days to 10 business days in an FSA rule change that became effective from 10 February 2009. The move was recommended by the Rights Issue Review Group last year. The shorter period applies only to non-statutory rights issues (where the company already has shareholder consent to dis-apply the statutory pre-emption rights). The Department of Business Enterprise & Regulatory Reform is to send out for consultation a proposed change to the subscription period for statutory rights issues (for those businesses following the company law route).

The ban on the short selling of financial stocks came to an end in January but the practice has been extensively reviewed by the FSA in a new discussion paper. The FSA has concluded that the cost of introducing any permanent restriction on short selling in the UK would outweigh any benefits. However, the financial regulator considers that increased transparency would be useful, and proposes a permanent requirement to disclose net short positions over 0.5% for all UK stocks. The current obligation to disclose net short positions of 0.25% of a relevant company's issued capital runs to 30 June 2009.

The IFRIC 16 guidance on hedges of a net investment in a foreign operation is under review with a proposal to remove the restriction on the entity that can hold hedging instruments. IFRIC 16 currently states that the hedging instrument cannot be held by the foreign operation whose net investment is being hedged. The rationale for this was that FX differences between the parent's functional currency and both the hedging instrument and the functional currency of the net investment would automatically be included in the group's foreign currency translation reserve as part of the consolidation process. The IASB has since realised that without hedge accounting part of the FX difference arising from the hedging instrument would be included in consolidated profit or loss.

Regulations to implement the Payments Directive in the UK have been laid before parliament and are due to come into force on 2 March 2009 so that the full regime can be effective by the implementation date of 1 November 2009. This early action by the government is to provide a firm environment for firms preparing for the eventual start date.

INTRODUCTION

By Martin O'Donovan
ACT assistant director, policy and technical

We are all having to get used to the new way the markets, banks and companies behave and relate with each other. To help members appreciate whether their experiences are unusual or not, the ACT has conducted a series of in-depth interviews with a sample of treasurers and we flag some of the main findings here. Then there is the Bank of England's new scheme to buy sterling commercial paper issued by companies, which is well worth thinking about. But if you feel that everything is changing too much, it's apparent that some things never change: "How little you know about the age you live in if you think that honey is sweeter than cash in hand," wrote Ovid 2,000 years ago.

Treasurers reveal real impact of credit crisis

The ACT has been able to report on the impact of the changed banking and market conditions on the treasury plans of large UK companies, following a series of in-depth interviews with ACT members in FTSE 350 companies.

All recognise that conditions are unquestionably far trickier now, although not everything has ground to a halt – there was even a fair volume of bond issues in January this year.

Many companies took advantage of the benign conditions in 2007 (and earlier) and became overfunded. Some that renewed facilities during the summer 2008 credit crunch sensibly assumed that things would not get better quickly. The vast majority of our respondents will face their first requirement for refinancing in 2011 or later.

Finding a bank prepared to do new business is difficult, and even with the apparently willing ones the approval process within banks is unclear and unpredictable, which can lead to uncertainty, delays and frustration. Relationships are key and banks are even more conscious of their share of wallet. However, with the right match between bank and customer, deals can be done.

Expectations were that even on refinancings the amounts available would almost certainly be scaled back, as would available maturities. The prospects looked bleak for being able to raise a large M&A facility quickly and easily, and this was seen as an area where real constraints on the business may become apparent.

Clearly, borrowing margins have risen. As a rule of thumb, margins will be five times higher than the previous lows. Sadly, a return to more normal levels is not expected until 2010 or later, and even then margins will not reach the 2007 levels.

With banking market capacity much reduced for the foreseeable future, the capital markets are seen as a replacement funding source even for those that have traditionally steered clear of bonds. Some unrated corporates are expecting to seek their first rating so they can gain access to new sources of funding.

Perhaps reflective of the size of companies surveyed and the fact that they have professional treasury departments, there were few problems with withdrawal of uncommitted lines. These were still in active use for bonding and letters of credit, and where there were cutbacks, often it was to recognise that they were surplus to requirements.

Counterparty credit exposure, cash management and working capital management were all getting proper attention, and, perhaps surprisingly, customer payment behaviour was seen as good.

The full report, including advice to members, will be covered in more detail in a forthcoming issue of The Treasurer and is available at: **www.treasurers.org/creditcrisisimpact** ■

www.oanda.com
The days of cutting out The Financial Times' world value of the pound table to build a record of historic FX rates are long gone, supplanted by the likes of Oanda. The Oanda.com site offers free access to historic rates for a vast selection of cross-rate pairs along with data such as currency correlations and, for selected currencies, live rates.

Bank of England starts buying corporate paper

The Bank of England has published a market notice detailing how it intends to operate its £50bn asset purchase facility to channel state funds directly to the corporate sector. The idea is that it will also underpin secondary market activity, reduce the liquidity premium on high-quality corporate bonds and so remove obstacles to corporate access to capital markets.

The facility for the Bank to buy sterling commercial paper became operational on 13 February. The Bank will only buy commercial paper from eligible issuers that have pre-registered with it. Eligible issuers must be UK incorporated and be making a material contribution to economic activity in the UK.

The issuer also has to be rated, although short-term ratings down to A3/P3/F3 will be acceptable. Companies without programmes can become eligible if they set up the necessary commercial paper programme and obtain a rating. The ACT has pointed out that getting a rating is not a quick process and that take-up would be greater if the Bank could consider an alternative to a rating. Nonetheless since this scheme is due to run for the foreseeable future it may be worthwhile getting a rating specifically for the purpose.

The bank initially proposes to be dealing at a three-month rate calculated at minimum spreads over the overnight index swap (OIS) rate of:

Rating	Spread
A1/P1/F1	75bp
A2/P2/F2	125bp
A3/P3/F3	300bp

The OIS is an interest rate swap agreement where a fixed rate is swapped against a published index of a daily overnight reference rate for the agreed period. The OIS three-month rate has been running at just over 100bp below Libor, making the Bank's rates potentially very attractive.

The Bank is keen for companies wanting to explore the eligibility mechanism to contact it via: **APF_applications@bankofengland.co.uk**

The Bank is also consulting on a corporate bond secondary market scheme whereby purchases of modest amounts of sterling bonds would be made via market-making firms to aid secondary market liquidity. Once again, eligible issuers must be UK incorporated, making a material contribution to the UK economy and of high credit quality. The exact mechanics and processes have yet to be decided but are expected to include limits on amounts from any one issuer. The Bank may well allow the processes to evolve to meet the circumstances. Purchases may be made through bilateral transactions or reverse auction, and since the purpose is to stimulate liquidity, they will presumably be making disposals too.

Further stages in the asset purchase facility could involve the Bank transacting in bonds issued by banks under the government's credit guarantee scheme and buying corporate syndicated loans and asset-backed securities particularly where these support the financing of smaller companies or those below investment grade. Full details at: **http://tinyurl.com/BOEAPF** ■

Indexation to count as a cash outflow

The true cash cost of debt linked to the Retail Price Index (RPI) is the subject of new ratings criteria from Standard & Poor's, issued on 10 February 2009. The indexation element of an RPI-linked debt is taken year by year as part of the profit and loss cost of debt but in cash terms is added to the principal and only paid at maturity. The S&P analysis reduces funds from operations (FFO) by the entire interest expense, including the indexation component, to arrive at a figure it views as representative of sustainable cash generation, net of total debt cost, even though the actual indexation uplift is not a cashflow year by year. Operating cashflow is left unchanged as it remains a measure of the actual flows having occurred in the period.

This treatment will affect the FFO-to-debt ratio, although there is no impact on the analysis of the FFO interest coverage since here FFO is taken pre-interest.

The S&P liquidity analysis will continue to recognise the benefits to the issuer of deferring the payment of principal indexation. However, by lightening issuers' near-term cash-interest burden, such instruments may incentivise issuers to incur more debt than otherwise.

Applying this calculation of FFO is unlikely to have any immediate rating implications.

IN BRIEF

Last year the International Acccounting Standards Board (IASB) proposed additional IFRS 7 disclosures as to fair value for **investments in debt instruments**, even for instruments not carried at fair value through profit and loss. At its January board meeting, the IASB decided not to proceed with the exposure draft of December 2008, but to reconsider investments in debt instruments as part of its broader project to improve the accounting for financial instruments.

Improved IFRS 7 disclosures about financial instruments set out in the exposure draft in October 2008 will be retained given the decisions made by the IASB at its January meeting. The fair value hierarchy as in FASB Statement 157 will be used and disclosures categorised according to these three levels. The board anticipates that the final amendments will be applicable for annual periods beginning on or after 1 January 2009.

Proposals for regulation of credit rating agencies continue to make progress through the EU parliament and are expected to be finalised in April 2009. In the course of redrafting, the scope of the regulation has been toned down to clarify that it relates only to public ratings and those that qualify for use in other regulations. The European Commission's proposals, which have been superseded, included banning trading in any securities rated by an agency that was not authorised in the EU. Numerous other changes are being made even in the final stages.

The January newsletter of **the Financial Service Authority** (FSA), List 20, provides some important reminders for listed companies. For example, the Global Debt Group's Same Day Supplements service is now approving a wider range of supplementary prospectuses on a same day basis. With the going concern statement something that cannot be taken for granted, the FSA is prompting directors to consider whether there could be a need to refer to going concern at the preliminary announcement stage if there is likely to be an emphasis of matter on this in the audit report.

In similar vein the current market conditions mean that many transactions will have a rescue element, and sponsors are reminded to pay particular attention to any working capital statement. Although a working capital statement is the responsibility of directors, the sponsor must review and challenge the work done by the issuer and reporting accountant.