IN BRIEF

The tax treatment of controlled foreign companies (CFCs) is under review by HM Treasury, and a discussion paper has been published. The reform of the treatment of foreign profits has been separated into two parts. The first was introduced in the Finance Act 2009 and included a wide-ranging exemption for foreign dividends repatriated to the UK, but combined with the introduction of an interest restriction measure (the worldwide debt cap). This second part on CFCs maintains the objective of protecting the UK tax base from erosion through the artificial diversion of profits from the UK while maintaining and enhancing the UK's attractiveness as a base for global business. The Treasury says the new rules will not be targeted at profits that are genuinely earned in overseas subsidiaries.

Treasury management advisers should be regulated by the FSA, according to the House of Commons' Communities and Local Government Committee following a review of the practices of local authorities in taking advice on placing deposits and the problems with Icelandic banks. The committee thought it wrong that treasury management advisers were allowed to promote themselves as "regulated" when, in practice, advice on deposits is unregulated but is carried out alongside other regulated activities by their firms. Advice on investments would have been a regulated activity.

XBRL is on the up. The eXtensible Business Reporting Language is a subset of the XML technology common in the IT world, and the idea is that by using a common standard for tagging data in financial accounts it will become possible to extract and reorder information automatically and tailor it at will. The Auditing Practices Board has now issued guidance on XBRL tagging since it is not currently within the scope of audits but over time may well be integrated into accounting systems and used to generate financial statements. For accounting periods ending after 31 March 2010 and submitted to HMRC after 31 March 2011, the company tax return must be delivered electronically using the Inline XBRL (iXBRL) format. The legal requirement for delivering company tax returns electronically in a means approved by HMRC was established in SI 2009/3218, the Income and Corporation Taxes (Electronic Communications) (Amendment) Regulations 2009.

INTRODUCTION

By Martin O'Donovan
ACT Assistant Director, Policy and Technical

We are all busy enough dealing with the immediate needs of our companies, but when we do look at forward planning it's a good chance to sit back and think through more than the usual risks of rates going up or down x% and consider any major step changes. For our businesses there could be dramatic developments through demographics, climate change, depletion of world resources or whatever, and in our own financial world what might be the shape of the future funding? The HM Treasury paper on non-bank funding is an interesting starting point since it may be that banks will no longer be the mainstream providers of drawn funding for UK businesses.

BofE eyes expansion of non-bank lending

The Bank of England and HM Treasury are reviewing the factors that shape corporate options for obtaining debt finance from non-bank lenders.

It's a timely move given the likelihood that banks will be capacity-constrained and Basel III will make bank loans more expensive.

The recent discussion paper explores:

- barriers to the use of non-bank lending channels by large and upper mid-sized firms;
- the scope for reducing these barriers; and
- ways for non-bank investors to more effectively invest in corporate debt.

The ACT has fed back the views from corporate treasurers through informal meetings and an official response to the Treasury consultation, which identified the key factors in shaping non-bank lending channels as: credit assessment and monitoring; corporate transparency; transparency in loan pricing; the preferences of UK investors; and whether investors are deterred by the characteristics or structures of non-bank loan markets and high-yield bond markets.

For corporates, credit ratings may seem expensive and involve a major time commitment from senior management as well as a loss of control to ratings agencies, but these effects are probably only at the margin compared to the gains.

In a way greater public disclosure as a means of informing investors would be more onerous. In theory more transparency makes for better markets but oversimplified disclosures of bank loan covenants could be misleading since exact definitions and context are crucial to interpretation.

On the face of it, loan pricing is very clear: a margin of x basis points over LIBOR. But what confuses the picture is that bank lenders can justify making the loans through returns made on ancillary business. Non-bank lenders must price on a standalone basis.

Investor preferences and bond market characteristics tend to make small issue sizes unattractive yet a thriving US private placement market exists, so investor habits and ways to help them assess and monitor small transactions would benefit from investigation. ■

See *Let There be Credit!*, page 18

Let's pretend…

The article on page 12 (Ready for Renewal?) offers a reminder that planning for uncertainty can be aided by the use of scenarios and stress-testing. The book – and "Beyond Crisis" really does amount to a book – that the article is based on describes the approach used to develop a set of global scenarios at Shell, and there is more to it than merely a business plan plus or minus 20%.

You can download the Shell scenario guide at: **http://tinyurl.com/cef3wx**

And there is more on scenario planning from the Challenge Network at: **http://tinyurl.com/yzlnnbo**

US tightens MMF rules

The SEC has approved new rules for US money market funds (MMFs) to protect investors and help ensure liquidity.

The will be phased in during the year and require MMFs to hold a minimum percentage of their assets in highly liquid securities. Currently, there are no minimum liquidity ratios.

At least 10% of MMF assets must be in cash, US Treasury securities, or securities that convert into cash (that is, mature) within one day. At least 30% of assets must be in cash, US Treasury securities, certain other government securities with remaining maturities of 60 days or less, or securities that mature in a week. MMFs must also develop procedures to identify investors whose redemption requests may pose risk for the funds.

There will be restrictions on owning illiquid securities and lower-quality assets, with the limit coming down from 5% to 3% of assets.

Exposure to interest rate risks will be reduced by restricting the maximum weighted average life maturity of a fund's portfolio to 120 days; currently, there is no limit. The maximum weighted average maturity of a fund's portfolio will be 60 days; the current limit is 90 days. There will also be a new requirement to stress-test funds ability to maintain a constant net asset value (NAV) in the event of market shocks.

The new rules continue to limit MMF investments in rated securities to the top two rating categories (or unrated securities of comparable quality), but MMFs will have to perform their own independent credit analysis of every security purchased.

There will be a new obligation for a monthly posting on the MMF's website of its portfolio holdings. This information will include a "shadow" NAV, or the mark-to-market value of the fund's net assets, rather than the stable $1.00 NAV at which shareholder transactions occur, but reported with a 60-day lag. Currently the shadow NAV is reported twice a year with a 60-day lag.

And in the UK Paul Tucker, deputy governor of the Bank of England, has expressed concern over the unregulated shadow banking system. This term describes firms that replicate the core features of commercial banks – liquidity services, maturity mismatch and leverage – and includes structured investment vehicles and MMFs. Alternative structures that offer deposit and monetary services should be brought into the banking world.

"The money-fund industry is a major supplier of short-term funding to banks," Tucker said. "So its own maturity mismatch masks the true liquidity position of the banking sector, and injects extra fragility into the financial system as a whole. The BofE believes constant-NAV money funds should become either regulated banks or variable NAV funds that do not offer instant liquidity. ■

See *Feeling the Quality*, page 14 of the Cash Management supplement

EU gets set for SEPA push

An end-date for migration to Single Euro Payments Area (SEPA) products is becoming more likely.

The EU Council of Ministers' ECOFIN committee has concluded: "Establishing definitive end-dates for migration (to SEPA Credit Transfer and SEPA Direct Debit) would provide the clarity and the incentive needed by the market, ensuring that the substantial benefits of SEPA are rapidly achieved and that the high costs of running both legacy and SEPA products in parallel can be eliminated."

ECOFIN invited the European Commission and the European Central Bank (ECB) to assess whether legislation was needed to set binding end-dates for migration to the SEPA schemes.

According to the ECB, the percentage of credit transfers in the euro area processed using the new SCT format remains very low at just 4.8% of volumes and is mostly limited to cross-border payments. Back in March 2009 the EU Parliament called for a "binding end-date, which date should not be later than 31 December 2012, for migrating to SEPA products".

The SEPA direct debit scheme was launched in November 2009. All branches of banks in the euro area must be reachable for SEPA core direct debit by 1 November 2010. As of January 2010, 2,647 banks, representing around 70% of SEPA payment volumes, had signed up to the scheme.

On the customer side, a 2009 SEPA readiness survey from Deloitte focusing on the corporate sector reported that SEPA readiness had significantly increased compared with 2008. The 2009 survey found an increasing number of corporates preparing for SEPA, with 49% of respondents having a SEPA strategy (2008: 20%), and 39% a designated SEPA team (2008: 21%).

IN BRIEF

▸ Since early January 2010 the **Bank of England has been selling back into the market corporate bonds** it acquired under its asset purchase facility. Purchases are also still being made. At the start of February the Bank held £279m of commercial paper and £1,466m of corporate bonds, both of which are dwarfed by its £198bn holding of gilts.

▸ **The Life and Longevity Markets Association (LLMA)** has just been set up as a not-for-profit venture to promote a liquid traded market in longevity and mortality-related risk. Most transactions to date have been private over-the-counter deals and the hope is that standardisation will attract new investors and create a liquid market in the same way that the markets for interest rate swaps and inflation swaps developed. LLMA's primary focus is pension-related longevity and mortality (macro-life), rather than life settlements (micro-life). In the short term it will focus on the UK market for longevity and mortality, but may later expand its horizons to other countries. The initiative aims to replicate the success of insurance-linked securities markets, which allow insurers to pass on some of the risk from unforeseen events, such as natural disasters, to outside investors like hedge funds. The LLMA's founder members are: AXA, Deutsche Bank, JP Morgan, Legal & General, Pension Corporation, Prudential, RBS and Swiss Re.

▸ **Over £700m of SME funding** has been made available through a government scheme that lets local banks that provide the loans obtain matched funding from the European Investment Bank (EIB). Nearly 3,000 small businesses across the UK have benefitted in the first year. Other government schemes aimed at SMEs include the £1.3bn Enterprise Finance Guarantee Scheme, the £74m Capital for Enterprise Fund to make equity investments in SMEs, a trade credit insurance scheme to top up cover if insurers reduce credit limits, and the spreading of tax payments over an agreed period though the Business Payment Support Service.

▸ **A trading platform for retail bonds** was launched in February by the London Stock Exchange. The aim is to expand over time the current select number of gilts and 10 corporate bonds included. Although targeted at providing individuals with pricing information and real trading quotes in small sizes, actual dealing by individuals has to be via traditional brokers.