IN BRIEF

The ACT has submitted evidence to the Department for Business, Innovation and Skills (BIS), which is investigating access to non-bank finance, from ACT members involved with mid-sized companies. It was noted that for companies with limited resources, the cost of non-bank finance discourages its use, particularly the senior management time required to inform new investors of the nature and risks of the industry and company. Comparisons with the cost of bank funding are also clouded by the link to ancillary business. Read our response at: **http://bit.ly/AeMChy**

A monthly money market fund (MMF) snapshot report comparing US and European MMFs has been launched by Fitch Ratings. Comparative portfolio analytics are provided to help assess the safety and liquidity of MMFs. The service is in essence a collation of data received from fund administrators and managers.

Powers for the Financial Services Authority (FSA) to discipline auditors, including disqualifying them, are included in the new Financial Services Bill. The powers apply only to a narrow scope of an auditor's role, where they fail to comply with the Financial Services and Markets Act, and can include not co-operating properly with the FSA. The new powers could cause an overlap with the accounting profession's watchdog the Financial Reporting Council, and might create some confusions and conflicts.

Late payment of invoices remains a big issue for UK small businesses, according to research from Tradeshift. The social business network says that 13% of invoices issued by UK small businesses remain unpaid every year, and that 39% of all invoices issued are not paid on time. The problem for small businesses is aggravated by the resulting administrative burden of chasing late payments.

Treasurers have confirmed that **Basel III** is certain to hit the real economy. A EuroFinance survey of treasurers shows that 57% believe the regulations will have a negative effect on the economy. In addition, 61% think that banking regulators do not understand the impact of their regulations on corporate and trade finance.

INTRODUCTION

By Martin O'Donovan

Deputy policy and technical director

"Prophesy is a good line of business, but it is full of risks," said Mark Twain, and equally in this age of instant news via the web or social media trying to predict what will still be topical and valid by the time what I am writing now is printed and delivered to your doorstep is not easy. The news from Greece changes every day but I guess it is fair to say that, even so, a treasurer does have to make an attempt at looking at the risk profile of the business against a variety of scenarios. Thinking how best to describe this in the financial reports could be tricky this year, so those in listed companies would do well to read the FRC's short but timely update – see opposite.

ASB plans standards bonfire

The Accounting Standards Board (ASB) has proposed a massively simplified financial reporting regime and much reduced rulebook. Users of accounts should still "receive high-quality, understandable financial reporting", the board says, but "proportionate to the size and complexity of the entity and users' information needs".

The proposals, published as financial reporting exposure drafts (FREDs) 46 to 48, recommend:

- replacing all current accounting standards with a single financial reporting standard (FRS) based on IFRS for SMEs. Accounting standards would then fill 250 pages rather than 2,500;
- introducing a reduced disclosure framework (FRED 47). Certain entities (mainly subsidiaries) would be allowed to apply the measurement and recognition requirements of EU-adopted IFRS with reduced disclosures; qualifying entities that are also financial institutions may not use the disclosure exemptions relating to IFRS 7 Financial Instruments and IFRS 13 Fair Value Measurement; and
- retaining the FRS for Smaller Entities (FRSSE).

The legal requirement for quoted groups to report under EU-adopted IFRS remains.

In its 2010 proposals for a UK accounting overhaul, the ASB planned to develop a hierarchy so that entities with public accountability would apply full IFRS, small entities with no public accountability would apply FRSSE, and an in-between tier would apply the FRS for Medium-sized Entities FRSME (based on IFRS for SMEs). As a result of its consultation feedback, the ASB has moved away from this structure.

Subject to feedback, the final standard should be available by the end of 2012. It would take effect for accounting periods beginning on or after 1 January 2015, with earlier adoption permitted. ■

ACT beefs up taskforce

The UK government is understandably concerned about access to finance, especially for smaller and mid-sized companies (SMEs). The Department for Business Innovation and Skills (BIS) has already launched numerous initiatives – everything from providing information right up to grants, guarantees and funding. Most recently Tim Breedon, chief executive of Legal and General, has been appointed to lead a taskforce to find ways to improve SME access to non-bank finance.

The taskforce is considering availability of all forms of debt and credit to businesses that are not senior bank lending. The review includes direct debt issuance by businesses in both public and private markets, mezzanine finance and other forms of debt such as asset finance, factoring, invoice discounting, peer-to-peer lending and crowd-funding. Supply and demand, barriers to the availability and expansion of the non-bank market and what can be learnt from other countries are all within the taskforce's scope.

The ACT has been assigned to lead on one of the taskforce's workstreams, with ACT president James Douglas taking the chair. The ACT-led subgroup is considering asset-based finance, drawing on previous work done on supply chain finance and private placement markets. ■

See Improving the Plumbing, page 22

FRC issues country risk warning

Country and currency risks have ramped up significantly over the past year. Regime change in the Arab world, funding pressures on governments, austerity measures, the risks of sovereign default or one or more countries being forced to exit the euro area, and even civil unrest have all cropped up. These conditions may give rise to delays or other defaults in contracts with customers and other trading partners exposed to, or based in, countries experiencing difficulties, and may affect expectations of future business volumes and margins. In the light of this, the Financial Reporting Council (FRC) has issued an update for directors of listed companies on reflecting this risk in financial reports.

Country and therefore business risk may need to be described in risk disclosures or even in accounting valuations and may prompt the auditors to take a special interest in the business. Analysts and investors are likely to pay particular attention to these risks over the next few months given the very high level of uncertainty about further developments.

The short FRC report recaps the various reporting requirements of laws and regulations where economic circumstances may trigger the need for some special mention or adjustment. Where a company is significantly exposed to increased country and currency risks, directors may need to enhance their disclosures around this, including how these risks are mitigated.

The FRC's own UK corporate governance code requires directors of listed companies to provide a balanced and understandable assessment of a company's position and prospects. They must also comment specifically on how the company operates for the long term (its business model) and whether there are risks to it continuing as a going concern. The Listing Rules (9.8.6R (3)) require directors of listed companies to make certain disclosures about going concern, and a going concern assessment is required under International Financial Reporting Standards (IFRS: IAS 1.25-26).

The Companies Act also requires directors to describe the principal risks and uncertainties facing their business (Companies Act 2006 Section 417(3)(a)).

A material exposure to adverse developments in country or currency risk is likely to trigger an impairment assessment for material non-financial assets. For example, a company that sells most of its output to consumers in a country implementing austerity measures is likely to need to consider whether property, plant and equipment may be impaired given the potential impact of those measures on growth rates, consumer spending, etc. IFRS provides specific procedures to be undertaken when assessing whether a non-financial asset has been impaired (IAS 36.12-14).

IFRS also contains specific requirements for impairment assessments of financial assets (IAS 39.58). The standard identifies a set of potential triggers for when an impairment assessment should be undertaken. The fact that government debts have already been provided against would not necessarily mean that all debts due from corporates in that country should be provided against, but it is likely that an impairment assessment would be warranted.

IFRS 7 also requires detailed disclosures about concentrations of risk (IFRS 7.34(c) and IFRS 7.B8). IFRS contains a disclosure requirement in relation to the sources of estimation uncertainty in the carrying amount of assets and liabilities (IAS 1.125). For example, a provision may not be required against material amounts (to the extent it is not carried at fair value (IAS 1.128)) due from a government in turmoil, but disclosure would be warranted of the amounts outstanding (IAS 1.125-133). ■

The FRC guidance is available at: http://bit.ly/yPVhrB

http://www.
WEBSITE WATCH

Access to finance

Qualified treasurers will be familiar with the main funding markets, but the array of special schemes, especially for small and mid-sized companies, changes from time to time. The BIS website is the place to check on enterprise finance guarantees and the like. Work through to the Business Link subsite for more general educational material. **http://bit.ly/w8NG4h**

IN BRIEF

- **The European derivatives regulation** (EMIR) is at the stage where the European Parliament and Council have agreed a text. The Council has decided to exempt pension schemes from clearing for three years, extendable by another two years plus a further one, subject to reports justifying the deferrals.

- **Charges for processing credit and debit card payments** could be more strictly regulated under plans unveiled by the European Commission in January. Banks levy a merchant service charge on retailers for collecting card payments, and the banks themselves are then liable to pay multilateral interchange fees (MIFs) to other banks that issue the payment on behalf of consumers. The Commission believes there is "a lack of transparency" with MIFs and wants to ensure more disclosure to consumers about customer card payment charges and how much retailers are paying to the banks.

- **The implications for the real economy** of the EU's Financial Transaction Tax (FTT) proposals have become clearer with the publication of two reports. One, from the Association for Financial Markets in Europe (AFME), uses research from Oliver Wyman to show that the FTT could raise the cost of FX transactions by three to seven times and even up to 18 times. Raising €1 of tax would cost the economy €1, they say.

  The second report, from the Alternative Investment Management Association (AIMA), does a more comprehensive analysis across markets for shares, bonds and derivatives, and concludes that the resulting reduction in economic activity of between 0.53% (€86bn) and 1.76% (€286bn) would massively outweigh the €25bn–43bn raised by the tax. The FTT would likely cause a significant reduction in asset prices and so an increase in cost of capital. It would also undermine market liquidity and so widen spreads.

- **The European Association of Corporate Treasurers** (EACT) has given a presentation to the ECON committee of the European Parliament on the consequences of the proposed Financial Transaction Tax for companies operating in the real economy. Richard Raeburn, EACT chairman, explained how the FTT, despite the apparently low rate, would accumulate within the financial system and ultimately be passed on to end-users.