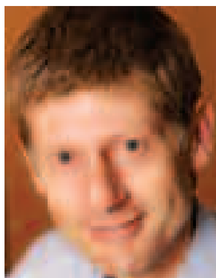
IN BRIEF

- The **International Accounting Standards Board** (IASB) is seeking input from users of financial statements about **information on financial instruments** that is useful to those making investment or credit decisions or advising others on investment or credit decisions. In particular, the IASB wants to ascertain whether users seek better information on the reasons for changes in fair values and how those values may move in the future. The IASB has also raised the concept of fair valuing interest expense, which means looking at the current cost of funds by reference to current market values and yields. Responses are sought by mid-April.

- The **Financial Reporting Review Panel** has completed a **review of 70 published interim accounts prepared under IFRS** (International Financial Reporting Standards). The panel found the level of disclosure and compliance was in the main good, although questions arose on matters of presentation and narrative descriptions of accounting policies. Issues specifically mentioned included showing finance income and costs as a net figure rather than as two separate items in the income statement (Listing Rules 9.9.8), and the absence of a precise definition of cash equivalents, which are usually limited to instruments with an original maturity of less than three months. Without a formal definition, there could be confusion as to whether securities with longer maturities had been included in the category (IAS 7.7 *Cash flow Statements*). Sixteen companies undertook to make amendments in future accounts.

- Under the **Transparency Directive and Prospectus Directive,** from January 2007 non-EU issuers will be required to **prepare financial statements to IFRS or "equivalent"** generally accepted accounting principles (GAAP) for publication in their annual and semi-annual reports, and for inclusion in any prospectus. The European Commission appears to be considering postponing the start date to 2008 or 2009 in the hope that various equivalent GAAPs will have converged with IFRS.

- The **Payments Task Force of the Office of Fair Trading** has published measures to improve **the governance of BACS Payment Schemes** (BPSL). The agency had concerns over whether its ownership by the banks was stifling innovation and customer service. The working group, which includes the ACT, has made recommendations on accessibility to membership, on giving users a greater say, and on imposing a specific objective on BPSL to promote efficiency and innovation and to respond to user needs.



INTRODUCTION

By Martin O'Donovan
ACT Technical Officer

The term 'lobbying' is said to derive from the late 19th century when the then US president would sit in the lobby of the Willard Hotel awaiting contact with those seeking favours. From those roots there has grown a huge industry, with 35,000 registered lobbyists for the US Congress alone, while in Brussels there are apparently some 3,000 lobby groups from all kinds of backgrounds. Surely they can't all be effective?

The European Associations of Corporate Treasurers (EACT) is active in Europe but is far more than a lobby group. Its professionalism and the expertise it has built up on the subject of payments in Europe have brought it recognition from the European Commission and the European Central Bank. The EACT is helping to shape the future payments environment and ensure its effectiveness for the benefit of all providers and users. The latest paper from the Commission on SEPA includes significant references to this role The hard work is at last paying off. ■

A new accounting basis?

A potentially radical new way of preparing accounts to convey a totally different aspect of the financials is out for debate.

In November 2005 the International Accounting Standards Board (IASB) issued a discussion paper, entitled *Measurement Bases for Financial Reporting: Measurement on Initial Recognition*, as the first stage of a project to undertake a preliminary investigation of measurement bases for assets and liabilities. The paper analyses possible bases for measurement on initial recognition, which will lay the foundation for subsequent stages dealing with remeasurement and impairment.

Following an analysis of possible measurement bases including historical cost, current cost and net realisable value, the paper concludes that the most relevant measure is fair value. However, it acknowledges that while measuring fair value is a straightforward process when a trading price is observable on an active market, measuring the fair value of assets and liabilities that are not actively traded is a more complex task.

Based on an analysis of the properties of fair value and the alternative measurement bases, a four-level measurement hierarchy on initial recognition is proposed. Level 1 (observable market prices) and Level 2 (accepted, market-consistent valuation models) both provide forms of fair-value estimates. Level 3 (current cost, with the possibility to use historical cost) and Level 4 (models and techniques using entity inputs) can be regarded as substitutes for fair value but may not be described as fair value.

The IASB's paper does not deal with when initial recognition of an asset or liability should occur, but its proposal that initial measurement be determined as at the date of initial recognition has important implications.

For example, an entity may contract to purchase a truck for 1,000 (fair value at contract date). If on the delivery date, when the asset is recognised, the fair value is 1,100, then it should be recognised at this value. The gain of 100 represents the consequences of contracting at a fixed price prior to obtaining the asset.

The paper also explores the manner in which the matching concept familiar to accountants is affected by applying fair value on recognition. Under its proposal, a distinction would be made between the income effects of acquiring or creating an asset and those derived from its operation.

In the example of the truck above, the credit of 100 arises from the purchasing activity, and the 1,100 fair value at the time that its use commences is the appropriate value against which to compare the income generated from it. Hence, the paper reasons that the cost-revenue matching objective is enhanced by the measurement of assets at fair value rather than historical cost on initial recognition.

The paper considers in detail whether there are additional considerations associated with liabilities, particularly regarding the treatment of credit risk in measuring liabilities. The paper concludes that credit risk associated with a promise to pay is taken into account in the market's determination of the fair value of that promise to pay as an asset or liability; as a consequence, on initial recognition of a new issue, the issue price will automatically be the fair value.

If you wish to make any comments to the IASB via the ACT, please contact modonovan@treasurers.org ■

Incentives for SEPA

The European Commission (EC) is clearly worrying about the slow pace of progress in developing the shape of the Single Euro Payments Area (SEPA), and the likely take-up by users and banks alike.

Although the EC has produced a draft payments directive to harmonise the legal framework for payments, it has left the development of SEPA to a market-led initiative. The Commission has recently published a consultation which reviews the gaps between its vision for SEPA and the work done by the industry's European Payment Council (EPC).

The paper explains that if users are insufficiently involved in setting the SEPA specifications there is a risk they will vote with their feet and not switch from existing clearing house arrangements if the latter offer a better service. The EC recommends consultation with corporate users, and in this context singles out the EACT as the appropriate body. Because of the EACT's high profile and good contacts, the ACT has been channelling its comments on the payments area back via the organisation. A constructive dialogue is now ongoing between the EPC and the EACT.

The wider vision that comes through in the EC's paper is that SEPA should be seen as an opportunity for a technology leap. Going beyond the basic payment services, it is a chance to reposition cash and cheques, to work on a long-term strategy for harmonising account numbers and facilitating account mobility, to develop e-invoicing and to move to a greater integration and dematerialisation of the whole supply chain.

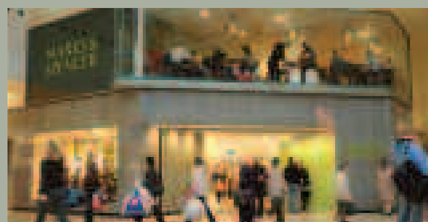
The hope is that the market will itself take forward SEPA and the various extensions into related e-business areas, and the EC offers to lend its support to such moves. However, there is also the clear threat that if the pace is too slow or the aims not ambitious enough, then some form of regulatory force may be required. ■

Taxation tickertape

Tax residence of companies The normal test of corporate tax residence is where the central management and control takes place, which is where the board meets to take decisions. In many financial structures, it is a crucial consideration. In Wood v Holden in January, the Court of Appeal rejected HM Revenue & Customs' argument and found that, despite a strong degree of influence from the parent, the decision making had been properly considered by the offshore directors. Even though an offshore company was established to carry out part of a wider scheme, the idea for which originated with a UK parent, and even though the directors customarily approved those plans, the companies did not thereby fail to be resident in their own countries. The Appeal Court agreed with the comments of Park J in the High Court that "if directors of an overseas subsidiary sign documents mindlessly, without even thinking what the documents are" it would be hard to argue they were tax-resident where the directors met. "But if they apply their minds to whether or not to sign the documents, that is a very different matter".

Group loss relief Following the decision of the European Court of Justice (ECJ) in the Marks & Spencer case, the government is introducing legislation in the 2006 Finance Bill to make certain cross-border group loss relief available in the UK in cases where there is no possibility or prospect of being able to obtain loss relief in the country of residence. There will also be anti-avoidance legislation designed to deny UK group relief where there are arrangements which either result in losses becoming unrelievable in the country of residence that were otherwise relievable, or give rise to unrelievable losses which would not have arisen but for the availability of relief in the UK, if (in either case) the main purpose or one of the main purposes of the arrangements is to obtain UK relief. This will be applicable to all arrangements on or after 20 February 2006.

Controlled foreign companies The ECJ is also hearing another case that goes to the heart of the relationship between the UK and other member states' tax regimes and EU law. The case relates to Cadbury Schweppes and concerns the tax regime for the UK's controlled foreign companies. ■



IN BRIEF

The IASB and the US Financial Accounting Standards Board (FASB) have signed a **memorandum of understanding** for eliminating accounting differences in 10 key areas, including the fair value and impairment of assets, borrowing costs, income tax and joint ventures, by 2008. The Securities and Exchange Commission is already planning to allow foreign issuers in the US using IFRS not to have to reconcile to US accounting by 2009.

The **Financial Services Authority** (FSA) has scrapped its **training and competence rules** for individuals who do not deal with private customers so that certain exam qualifications will no longer be compulsory. A decision on the approved person regime has been postponed, so as to link it to other MiFID-related plans.

The **IASB** has been consulting on changes to the way **contingent liabilities** are recognised in the accounts. After receiving 123 responses, the IASB has decided to undertake further analysis and deliberation until May 2007 and will not issue a standard in 2006 as originally envisaged. The ACT had queried whether the proposals were an improvement and were really needed.

The **public debate** on the status of the **Operating and Financial Review** (OFR) continues with the Department of Trade & Industry seeking further comments. Along with the Association of British Insurers, the Institute of Directors and 13 other trade and professional bodies, the ACT has called for a clear recognition in UK law that directors should not be penalised for statements made in good faith and which are not reckless.

An interpretation from the **International Financial Reporting Interpretations Committee** of the IASB on the reassessment of **embedded derivatives** is in near-final form. It clarifies that the assessment of the need to separate an embedded derivative should happen when the entity first becomes party to a contract but subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cashflows otherwise required under the contract.

The **Proceeds of Crime Act 2002 and the Money Laundering Regulations 2003** have been amended so that accountants, auditors and tax advisers have the same **'privilege' defence** as legal advisers. This is in the context of the obligations on the regulated sector to make disclosures if they suspect money laundering.