THIS MONTH

CURRENT CONCERNS

Following last month's briefing, there is no further clarity on Greece and the euro at the time of writing, but money market funds have made some progress through EU regulation. Concerns over negative interest rates remain in the short run, but longer-term pressure eased as bond rates started to rise. This month we look at the UK Payment Systems Regulator, base erosion and profit shifting, developments in going concern, reporting, derivative transactions and the current status on benchmarks.

Stephen Baseby is ACT associate policy and technical director @BasebyStephen

{ IN DEPTH }

BEPS: TREASURERS BEWARE

The Organisation for Economic Co-operation and Development's Base Erosion and Profit Shifting (BEPS) action plan proposes significant changes to the taxation of multinational enterprises (MNEs). It is anticipated that over the next couple of years many countries will include these changes in their tax law.

There are a number of proposals within the plan that impact on a group's treasury activity. Most significant is the consultation document on *Action 4: Interest Deductions and Other Financial Payments*.

These proposals could have a fundamental impact on the financing arrangements of MNEs, since a widespread change in the tax status of debt will materially affect the cost of capital. The overall cost of day-to-day business activities and funding for organic and acquisition-led growth are likely to need reassessment. Treasurers should watch for further developments relating to these proposals, as they become more definite, and as governments start to implement them.

The proposals limit tax relief for interest and amounts economically equivalent to interest. FX gains and losses on financial balances may also be within scope. Any rule would take precedence over transfer pricing principles.

Two alternative methodologies to limit interest deductibility are proposed. The first is a fixed-ratio method. This would limit interest to a percentage of a company's earnings. Similar provisions are already applied in a number of territories, and a degree of harmonisation may occur. Proposals on specific ratios remain outstanding.

The second method proposed is a worldwide interest cap. This would limit total interest deductions to the group's net third-party interest expense. A proportion of the cap would be allocated to each relevant territory through an allocation key, such as territory profits as a proportion of group profits.

Therefore, fluctuating territorial profits combined with fixed territorial financing costs are likely to result in cash tax volatility. Current cash management and funding strategies should also be reviewed, since they may become inefficient.

{ WATCH THIS SPACE }

NEW REGULATOR FOR UK PAYMENT SYSTEMS IS LAUNCHED

On 1 April, the UK Payment Systems Regulator (PSR) became fully operational. The PSR is a new economic regulator that has been established to oversee the £75 trillion-a-year payments systems in the UK. It has a clear task: to open up the UK payments infrastructure, which is currently controlled by the high street banks, and make it more accessible to challenger banks and other payments businesses, and fairer for consumers.

Who does the PSR regulate?
There are currently eight payment systems designated by HM Treasury for regulation by the PSR. These are: Bacs, CHAPS, Cheque and Credit Clearing, Faster Payments, LINK, MasterCard, Northern Ireland Cheque Clearing and Visa.

Why does this matter?
The PSR wants to make sure that all users of payment systems, either direct or indirect, are treated fairly, that their views and concerns are taken on board, and that they can help to shape the future development of payments.

The Payments Strategy Forum
One of the PSR's policies is to launch a Payments Strategy Forum to involve payments users, consumers and the payments industry in developing strategies aimed at unlocking potential innovation in payment systems. As the PSR develops this forum, it wants to hear from interested ACT members, who would like to be engaged and kept up to date with the next steps.

If you are interested in providing your insights and experience to help form a picture of what the future of the UK payment systems could look like, please email psrcommunications@psr.org.uk

For more information about the PSR and the forum, please visit www.psr.org.uk

The European Association of Corporate Treasurers was invited to speak on a panel to represent non-financial corporate counterparties

European Parliament towers, Brussels

{ INTERNATIONAL }

UPDATE ON DATA UNDER EMIR

On 27 April, the European Securities and Markets Authority (ESMA) issued the 13th update of its document on the implementation of the European Market Infrastructure Regulation (EMIR). For more, see http://tinyurl.com/omxehan

This update relates to the second level of the EMIR validation specifications to be applied by the trade repositories (TRs) to ensure that reporting is performed according to the EMIR regime. ESMA expects the TRs to be able to implement the validation by the end of October 2015.

This is a key step for achieving better data quality, since a rejected report will indicate which fields are not reported in compliance with EMIR and need to be corrected, which will allow counterparties to improve their reporting to meet the EMIR standards. Treasurers who have responsibility for direct input to an appointed TR should expect to receive updated file specification fields where the TR requires, but no additional reporting requirements are introduced.

Also, the European Commission held a public hearing to review EMIR in Brussels on 29 May 2015. The European Association of Corporate Treasurers was invited to speak on a panel to represent non-financial corporate counterparties and did so with ACT support. Members who want to find out what was discussed are invited to contact us in the first instance through the Policy & Technical team at technical@treasurers.org

NEW ON THE WEB

View the following technical updates and policy submissions at www.treasurers.org/technical and www.treasurers.org/webinars

ACT response to EU call for consultation on the Prospectus Directive

ACT past webinars:

Video: Risk management – best practice in times of unprecedented uncertainty

A reminder of *The Treasurer's Wiki*: www.treasurers.org/wiki

{ TECHNICAL ROUND-UP }

GREXIT, BONDS AND MMFs

At the date of writing, Greece continues to negotiate what it will do to release further loan funds while scraping together enough cash to service its debt with the International Monetary Fund. The possibility of a second internal currency has been aired, and the German finance minister has recommended that Greece takes the matter back to the Greek people to decide if they accept austerity or would rather leave the euro.

After the slide into negative rates of return in the two-year euro Bund market (which remain at -0.21%), the 10-year Bund touched 0.07% before a sharp rise to 0.55% during the week ending 8 May. This was no resolution to managing short-term negative rates, but it is a sign that no one is worth giving money to.

The EU has pulled back from an immediate move to variable net asset value (VNAV)-only money market funds (MMFs) and is proposing to retain, in the medium term, constant net asset value (CNAV) funds with exit fees and 'gates' to make the withdrawal of cash in a crisis harder. The draft legislation foresees different classes of CNAV funds with one for EU government debt only and another targeted at retail investors. A third CNAV is intended to evolve into a low-volatility VNAV fund. The text remains under negotiation among EU entities, but the mood has changed in favour of continued availability of MMFs to investors.

On 20 March, the Financial Stability Board wrote to the chairman of the London Foreign Exchange Joint Standing Committee to request its report on market participants' progress in implementing the recommendations for reforms to FX benchmarks no later than 31 July 2015. See http://tinyurl.com/o6kfluq

The Libor benchmark is now published by ICE Benchmark Administration, which has released a feedback statement on the responses received to its paper on the evolution and enhancement of ICE LIBOR. Further feedback can be made through contact details in the feedback statement. See http://tinyurl.com/nogtd32