IN BRIEF

▸ The timetable for **international and US accounting standards** convergence has been extended. The International Accounting Standards Board (IASB) and the US-based Financial Accounting Standards Board (FASB) have announced that the major convergence projects (revenue, leasing and financial instruments) will not be complete by June 2011. The new completion target is the second half of this year to allow for further work and consultation with stakeholders.

▸ The SEC is proposing to remove references to **credit ratings** from its rules, particularly those governing money market funds. The changes would require the funds to determine the credit risks of a security rather decide on the basis of ratings. The misjudgements of the rating agencies about the credit quality of mortgage-backed securities are widely viewed as a contributing factor to the financial crisis.

▸ The European Commission has published its 2010 report on **European financial stability and integration**. The report addresses adjustments in the financial sector in light of recent crisis experiences and emerging regulatory requirements. The report also attempts to glimpse the future shape of the European financial sector beyond the crisis. The conclusion which emerges from the study is that the risk management function of banks has become more centralised, and that most of the banks are moving in a direction which is more compatible with safer and more integrated financial intermediation.

▸ **Ratings for Europe's banks** span the widest range in 30 years, according to a report issued by Standard & Poor's (S&P). The range, based on S&P's long-term issuer credit ratings, has increased as the financial crisis and recession forced a restructuring of the industry and augmented prior differences in creditworthiness. S&P highlights potential government support in assessing creditworthiness of banks, particularly those that S&P views as having high systemic importance, as more important than ever. A list of standalone credit profiles for 100 of the largest financial institutions rated by S&P in Europe, together with their issuer credit rating, is available in the report, downloadable at **http://bit.ly/lhrVaO**

INTRODUCTION

By Michelle Price
Associate policy and technical director

Because of print deadlines, much of this month's Technical Update was drafted just ahead of the ACT Annual Conference. Picking up on two of the topics in this month's coverage, I found the update at ACTAC on the status of Faster Payments by VocaLink and the risk management strategy hosted by Lloyds Bank of particular interest. The track sessions and workshops at ACTAC covered a vast array of topics, from credit ratings and supply chain finance to Basel III and LatAm funding – there was even a professional poker player explaining the similarities in risk taking between poker, treasury and life! Given that treasury (and life) is not all fun and games, Technical Update summarises newsworthy items for treasurers, which this month include the impending removal of credit ratings from US legislation, the status of accounting convergence and the ASB's ambitious goal of decluttering financial statements.

Slow progress towards Faster Payments

The corporate version of the Faster Payments Service (FPS) continues to lag behind that of the consumer service.

While consumer payment volumes continue to grow, with 110 million payments made during Q3 2010, amounting to £43.1bn, corporate volumes and awareness of the service remain low. As of late March 2011 only one UK bank (Barclays) was offering Faster Payments Direct Corporate Access (DCA) to its corporate customers. A number of other banks provide a Faster Payments channel through bespoke services for larger corporates or through their business internet banking services.

FPS is a UK banking initiative to reduce payment times between different bank accounts from three working days using BACS (Bankers' Automated Clearing Services) to near real-time.

CHAPS (Clearing House Automated Payment System) already provides a limited faster-than-BACS service (by close of business that day) for high-value transactions. FPS, on the other hand, is focused on the much larger volume of low-value payments.

FPS offers corporates numerous benefits, including the ability to:

- process payments over the weekend and bank holidays, with a payment window open between 1am and 11pm daily;
- replace costly CHAPS payments with cheaper Faster Payments as the single DCA transaction limit has been increased to £100,000 (the actual limits depend on the individual banks, with some allowing individual Faster Payments up to the value of £20,000 and £100,000 for standing orders);
- provide a contingency payments mechanism if BACS processes are delayed, ensuring payments deadlines are not missed; and
- improve the customer experience by providing same-day payments together with an automated message to the beneficiary via mobile text or email that the payment has been made.

With cheques to be phased out by October 2018, the alternative typically considered is BACS. However, DCA should also be considered by treasurers and finance directors.

The factors to weigh up when considering a move to Faster Payments include:

- How many CHAPS payments do you currently make less than £100k?
- How many of your payments fail and what is the cost?
- Can your bank offer DCA for Faster Payments or a similar service?
- Can your bank payment system validate account details, verify ownership of the beneficiary account and identify where payments might fail (e.g. closed or non-existent accounts)?
- Do your beneficiary accounts support Faster Payments? ■

To find out whether the sort code that you are sending a payment to can receive Faster Payments, visit the online sort code checker at http://bit.ly/lYX5D7

EU hits final stretch on OTC derivatives

The EU's proposed European Market Infrastructure regulation (EMIR) is nearing its final stages. As we went to press the Council of Ministers was expected to reach political agreement on EMIR at its June Ecofin meeting, and the European Parliament is expected to consider it in a plenary sitting on 7 July.

Because of the efforts of the ACT and the European Association of Corporate Treasurers (EACT) over the past couple of years, the implications of EMIR for non-financial companies are recognised and largely allowed for, although several unwelcome elements remain. The ACT has been flagging these to MEPs and to HM Treasury, which represent the UK in the Council, but it is by no means certain how the final regulation will turn out, or indeed whether some completely new clauses will be negotiated in at the last minute. There are currently two compromise versions – one from the Parliament and the other from the Council – which will form the starting point for the trilogue stage, when the Commission enters the negotiations.

As it stands, non-financial companies will be required to put deals through central clearing and post margin only once their outstanding positions, excluding hedging deals, exceed a certain threshold. The thresholds are yet to be determined but will be set taking into account "the systemic relevance of the sum of net positions and exposures by counterparty per class of derivative".

Based on that rationale one would expect the thresholds to be huge but the risk remains that the regulators will set them low to bring more companies within the scope of central clearing. The ACT has been arguing that the exclusion of hedging deals from the threshold calculation should be defined by reference to group exposures rather than just the dealing entity, so we are delighted that HM Treasury has got this

EU: two EMIR versions currently exist

included in the Council's compromise version.

All new deals done after passing the threshold, even if for hedging purposes, will be caught and will need to go through clearing. Also, there remains the risk that deals done before the clearing threshold is passed, but after the regulation comes into force, will be caught if their remaining maturity is longer than some as yet undetermined period, i.e. a form of backloading or cliff edge. We regard backloading as totally impractical, putting an unnecessary strain on companies and indeed the banking system. MEPs have fully accepted this point and their compromise version is clear that there must be no backloading.

For deals done by a company exceeding the threshold but which are not subject to clearing, the regulation will require alternative risk mitigation through bilateral margining. However, the Council drafting is defective in that it currently covers all deals not cleared, rather than all deals subject to the clearing obligation but not cleared. This has the effect of requiring all old deals done prior to exceeding the threshold to be bilaterally margined, thus creating an impossible cliff-edge effect. We hope the wording will be corrected, especially since the Parliament version has now removed this anomaly. ■

Summary of UK economic forecasts

Every month HM Treasury produces a comparison of independent UK economic forecasts, including those from most of the well-known City forecasters as well as such non-City forecasters as the CBI and IMF. The figures are summarised and accompanied by averages and high-low ranges. The information can be particularly useful for business plans or forecasts that require economic data input. **http://bit.ly/mEh2q6**

IN BRIEF

▸ The US Treasury has announced that **FX swaps and forwards** will not fall within the Dodd-Frank rules for central clearing and exchange requirements. This is based on the unique characteristics and oversight of the FX swaps and forwards market, which already reflect many of Dodd-Frank's objectives for reform, including high levels of transparency, effective risk management and financial stability. The proposed exclusion is narrowly drafted. FX swaps and forwards will be subject to Dodd-Frank's rigorous trade reporting requirements and business conduct standards. The proposed determination does not extend to other FX derivatives, such as FX options, currency swaps and non-deliverable forwards. These will be subject to clearing and exchange requirements.

▸ The **Accounting Standards Board (ASB)** has published a report, Cutting Clutter, to give preparers of annual reports practical ways to simplify them. As well as offering numerous practical disclosure aids for reducing clutter, the report details factors to consider when planning the annual report. The objective is to encourage a change in behaviour in the early stage of the process rather than just provide tips on what to eliminate at the end. The ASB welcomes any comments by 30 September 2011. A copy of the report can be downloaded at **http://bit.ly/j4KGCE**

▸ Accessing the **syndicated loan market** for mid-sized and larger companies is the subject of a seminar in Birmingham on 21 June, organised by the Loan Market Association and including a presentation from the ACT. It will be particularly relevant for borrowers who have to date mainly made use of bilateral loan facilities. Details at **http://bit.ly/lF7sJf**

▸ The European Commission has proposed a **European financial transactions tax** (FTT). While the rate of tax, estimated to be in the region of 1bp to 5bp per transaction, is low, the multiplier effect as deals work through the market could quickly create a significant burden on the end user of financial transactions. The ACT views FTT as wholly unwelcome, hitting non-financial companies as well as the financial institutions it seeks to penalise, disrupting European financial markets and depressing the economy as a whole. The ACT's response to the proposal is at **www.treasurers.org/node/6913**