Funding and interest rates pose greatest risks

According to delegates at The Treasurers' Conference 2007, funding, liquidity and credit pose the greatest risk for corporations.

In the 'I'm a risk manager get me out of here!' session at the Edinburgh conference, sponsored by Deutsche Bank, Christof Haessig, Head of Corporate Financing and Treasury for cement manufacturer Holcim, gave a lively argument demonstrating what risk managers need to be aware of when assessing what risk is most important in terms of shareholder value.

Christof Haessig: cash is king in business

His argument that funding is an element of survivability was supported in a vote-off by the delegates, who listened to arguments put forward by three other risk managers.

A 56% majority agreed with Haessig's statement: "Cash is king, and the lifeblood of any company."

Keith Richardson, Deputy Group Treasurer of Tesco Stores, argued that foreign exchange (FX) and interest rates should be a high priority for risk managers as they impacted on short and long-term movements regarding pensions and borrowing.

Richardson agreed with Haessig that cash was king and valued the importance of commodities, but he added: "Managing the fundamentals, making sensible business decisions is the key to success in risk management." Richardson came a close runner-up behind Haessig. ■

Britain beats the world

Britain's financial services industry is a world-beater and should be applauded, according to Sir Digby Jones, the former director-general of the CBI and now an adviser to Deloitte.

In a wide-ranging speech at the final session of TTC 2007, Sir Digby addressed the successes, failures and challenges facing Britain in the early 21st century.

Of the million people work in financial services in the UK, 317,000 are foreign nationals – a figure, Sir Digby said, that represented "a huge credit" to this nation.

Astonishingly, the City of London accounted for 41% of all the financial services in the European Union, which has a population of 450 million. Last year, there were 89 initial public offerings (IPOs) in London – more than the Nasdaq, New York and Frankfurt exchanges combined – raising £30bn.

"This is a real class act and all those involved should be applauded," said Sir Digby. Financial services, he said, had made London the capital of the world, not through subsidies but through engagement.

Sir Digby looked at the global trends in the three pillars of the economy – goods and services, capital flows and people. He said the UK was seeing and dealing with the challenges set by globalisation better than any other country.

The developing world would not pay the developed economies for commodities, goods and services they could produce as well and cheaper. So developed countries had to rely on innovation, value-added and quality brands to remain successful. And that, said Sir Digby, was what Britain was doing so well, having refused to follow the US and France in relying on protectionism.

The result of British innovation can be seen in products such as the Airbus, 68% by value of which is built in Britain. The most productive car factory in Europe is in Britain – Nissan's Sunderland plant.

Sir Digby also applauded the success of the UK's advertising and design industries – 17% of the world's creative GDP is in Britain.

He disagreed that foreign investment was bad for Britain. Citing the takeover of BAA by Spanish company Ferrovial, he asked: "What are they going to do? Move terminal 5 at Heathrow to Spain?"

According to Sir Digby, the British economy is healthily outward-looking. It invests more in China than any other country in the world, and more in the US than the rest of the EU combined.

He welcomed immigration as a long-standing feature of British life, calling the British a "bastard race" and said that those who came to this country should speak English, pay tax and work in the transparent economy.

But he also warned of the dangers of social unrest and poor education.

According to Sir Digby, seven million of the 33.5 million adults in this country are functionally illiterate, and a third are functionally innumerate, being unable to add three-figure numbers together.

He said that the successful financial services sector was "not taking the whole of society with us". The number of unskilled jobs was set to fall dramatically, he said, and too many people were without hope and losing their self-respect. Sir Digby challenged the audience to get involved with the problems the country faced. ■

Sir Digby Jones: UK economy successfully innovating, adding value and creating quality brands

Private equity houses do capitalism best

Private equity has now become almost as important as stock markets at providing capital, according to John Singer, London Managing Director of Advent International.

In a masterful portrayal of the emergence of the private equity phenomenon across the globe, Singer argued that the figures suggested that private equity-backed companies performed more effectively than listed counterparts. With 26.7% of money invested in private equity going into businesses with more than 5,000 employers, private equity in the public market was more relevant than ever, he said.

Around 10% of non-state GDP is now in the hands of private equity.

Singer's presentation followed a session earlier in the conference looking at opportunities in the leveraged finance arena and developments in private equity investment, in which three specialists agreed that businesses found it more difficult to compete with those using private equity houses.

There has been a explosion of fundraising in the private equity side and 2005 and 2006 were both record years for private equity houses. The recent £11bn buy-out of Alliance Boots is evidence of the strength of private equity in the market – the deal could not have taken place three years ago.

Singer said that, belying their asset-stripping image, private equity houses spent time working out where they could add strategic value, and brought discipline in the area of financial and operation controls and corporate governance. The clear idea extended to techniques such as the 100-day plan post-acquisition. ■

John Singer: private equity houses add strategic value and impose more rigorous business controls

PayPal sets sights on mobile commerce

In a session looking at the impact of the internet as a sales channel, Geoff Iddison, Chief Executive Officer of PayPal (Europe), announced plans to expand to the mobile market.

The secure payment supplier, which currently has 145 million account holders, believes that moving to payments via mobile phone is its most logical next step.

The idea is to allow online shoppers to pay for their goods via their mobile phone and see their balance change in real-time wherever they are.

Linking mobile phones to a PayPal account should ultimately provide more convenience for online shoppers.

Since 52% of online shopping is for travel and accommodation, the idea of using PayPal while on the move could prove a positive progression for customers and for the organisation.

Iddison said: "Last quarter, PayPal was the preferred method of paying online. At the end of this quarter, PayPal will be the preferred method online and mobile."

He added that there would be no need for customers to change their mobile phones to use the payment technology. They will be able to use any current mobile that has internet access

According to Forrester Research's European e-commerce forecast, the volume of online retail sales in Europe will more than double in the next five years. ■

Treasurer's role becomes ever more complex

Is this a good time to be a corporate treasurer? asked Ken Barclay, Managing Director of UK Corporate Banking Scotland at Royal Bank of Scotland.

Barclay said the the role of the treasurer had been made more complex as issues such as foreign exchange, inflation, liquidity and insurance

Ken Barclay (right) hosts the panel discussion

had become more of a concern.

But Barclay said treasurers were now better at dealing with risks than ever. "We are in a better micro-economic climate than we have been for a number of years," he said, "and the landscape has never been more competitive with private equity houses."

While demand and supply remain strong on the lending market, investors are advised to combat the threat that rising inflation will have on their decisions.

According to Barclay, France is anticipating a peak of 5.5% in inflation in the coming year.

He also suggested that the US dollar was no longer at the forefront of the market and it would be the euro that would shape the economy. ■

Businesses face up to global liquidity challenge

The conference heard of the challenges of managing currency liquidity on a global business.

In a session chaired by Patrick Nolan, Head of UK Corporate Banking at HSBC, delegates heard from treasurers running global businesses, and from HSBC bankers involved in liquidity and transaction issues.

The key theme of the session was the need to shape the treasury function to reflect the changing shape of the business.

Ian Ladd, Group Treasurer at ICI, explained how ICI's corporate structure had changed since the 1970s but its quest to maximise cash resources remained constant. In the 1970s, for example, ICI set up a shared service centre in Northwich, Cheshire, to concentrate global receipts and the company had a remarkable ability to extract same-day value. ■

Career ladder conundrum for treasurers

Career progression for treasurers remains a constant source of debate in professional circles, and Gary Slawther, Group Treasurer at Jarvis, told the conference that a financial director (FD) post was the pinnacle of a treasurer's career ambition.

The conference saw a lively debate questioning the relationship between treasurers and FDs. While Slawther believes that treasurers and FDs make a natural team, others disagreed.

Matthew Hurn, Group Treasurer at DSG International, suggested that FDs were increasingly more commercially focused and that tax and treasury might make a better team.

And Malcolm Cooper, Group Tax and Treasury Director at National Grid, said that there was a danger was that the treasurer/FD combination might be seen not as an alliance but as "stepping on the FD's toes". He suggested that more thought

Gary Slawther: treasurer and FD natural allies

should be given to the idea of the treasurer adding value to the business.

How treasurers and FDs could and should complement one another will doubtless remain a subject of debate. Kevan Greene, Head of International Funding and Banking Relations at Unilever, said: "It would be excellent for the financial director to spend time with the treasurer if it means that it will deepen the treasurer's role."

The delegates also agreed that it would be a good idea for FDs to work more closely with the treasurer's department. ■

■ Whatever the career aspirations of treasurers, the latest evidence from a comprehensive salary survey suggests the remuneration gap is narrowing between treasurers in FTSE 250 companies and those in FTSE 100 businesses. The 2007 ACT/Curzon Partnership Salary Survey suggests that broader management responsibility as well as technical expertise are the key determinants of remuneration. **For the full survey results, see Career Path, page 42.**

IT systems lag behind IFRS

Providers of treasury management systems (TMS) have struggled to keep up with the changing accounting requirements, according to Adrian Coats, Chairman of The Treasurers' Conference and Director of Treasury at Scottish Power.

Coats said some TMS providers had not even tried to keep up with the changes introduced by international financial reporting standards on accounting for financial instruments.

Although some providers had made significant progress, treasurers were warned that some of the claims made for functionality did not stand up on closer examination. However, Coats acknowledged that life had been made difficult for the IT suppliers, adding: "I am not sure I would want to be one."

Adrian Coats: TMS lagging on IFRS

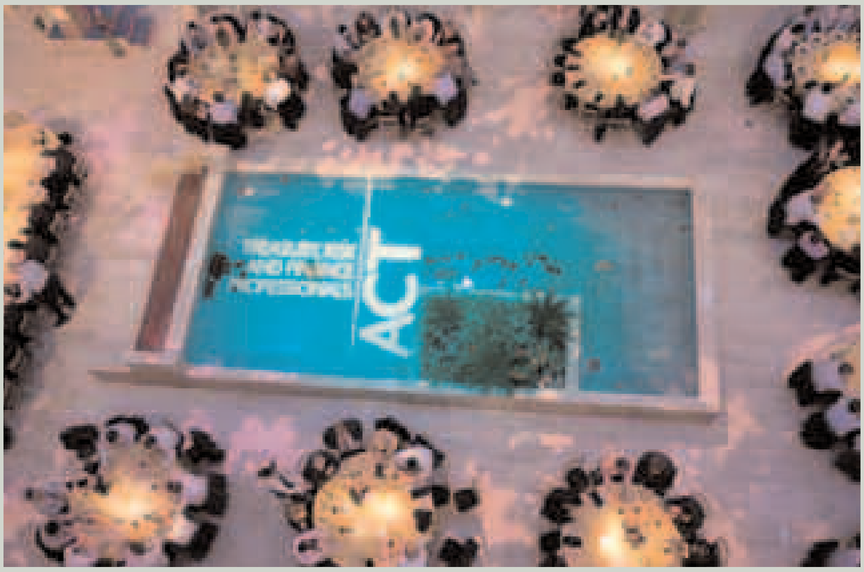
Speaking at the 'getting the priorities right for the treasury department' session at the start of the conference, Coats said that one of his priorities was looking at his own TMS, which had not been replaced for some years and was struggling to keep up with the complexity of accounting and Sarbanes-Oxley. Following the takeover of Scottish Power by Iberdrola, of more immediate concern to Coats was "integration, integration, integration", and the associated treasury issues such as change of control.

For David Swann, the priority at BAT was dealing with coping with international treasury – the company operates in 180 countries – and managing the speed of cashflow to pay interest on debt and shareholders. Such international operations made it vital to think about basic treasury controls, which were very different in different parts of the world.

Swann was also concerned about banking costs and how the group's 20 core banks may reduce to 18 or 19 over the next couple of years.

Another issue had been trying to get a handle on pension risk in the group. It was difficult to engage actively with trustees in all parts of the world. ■

A magical evening



At this year's TTC gala dinner at the Royal Scottish Museum, the evening took on a lighter and sportier tone as ex-England international and British Lions rugby player Martin Bayfield took to the podium for what can only be described as a colourful speech. As he revealed to the delegates that he had acted as the stunt double for Hagrid in the Harry Potter films, we wondered whether he knew that JK Rowling had written the novels in a café just around the corner from the museum.

Funding session stresses value of deep banking relationships for mid-caps

The session on mid-cap funding, sponsored by Lloyds TSB, became a clarion call for consolidated banking in the UK mid-market, as each panel member re-iterated the value that deep bank relationships bring to the treasury function.

Session Chair Robert Greene, Director of Debt Capital Markets at Lloyds TSB Corporate Markets, polled the audience and found that 77% of treasurers in attendance worked in treasury teams with five or fewer staff.

"Many treasury departments are clearly overstretched," said Greene. "To support the treasury function and maximise funding opportunities, mid-caps should vary their sources of funding and consolidate their banking relationships with those banks with which they will transact the most non-credit business."

Greene was joined – via video link – by Tony Hooper of Pennon Group, George Cummins of Eco-Bat Technologies and Mark Poole of Virgin Group.

"We tend to look to our bilateral relationship lenders when we raise funds," said Poole, Finance Director of Virgin Group. "Speed to market, honesty and efficiency are our key requirements, particularly with event-driven transactions. In this sense, these factors far outweigh the pricing issue alone."

Greene added: "Flexible funding is more important for mid-caps, and because debt is a larger component of the capital structure and leverage levels are relatively higher than those of their blue-chip counterparts, mid-caps will inevitably have fewer but closer bank relationships."

A recurring theme of the session was that mergers and acquisitions were back on the agenda for mid-cap companies and that treasurers needed to be alive to the most appropriate sources of funds.

According to Greene, these sources have developed well beyond simple bank loans, so beloved of the mid-market treasurer, to encompass the deeper pools of liquidity afforded by the private and public capital markets.

The session also pointed to the fact that market dynamics have emerged as possibilities for mid-caps. "We locked into a long-term, low-interest cost by linking a portion of our debt to the RPI," said Pennon Group Treasurer Hooper. As Greene pointed out, "this was in response to demand from the pension industry to receive long-term inflation".

But it was left to Cummins, Group Finance Director at Eco-Bat Technologies, to underline the value of bank relationships for mid-caps accessing the capital markets. "When Eco-Bat launched a high-yield bond last year, the marketing story was key for us. And, inevitably, it was our bank's deep understanding of our business and its experience marketing capital markets products that added the right edges to that story." ■

Robert Greene: most treasury departments are clearly overstretched

The exhibition

The ACT would like to thank all the delegates, speakers, exhibitors and sponsors who contributed to making The Treasurers' Conference 2007 such a success. We would also like to thank the EICC for its hospitality.

CO-LEAD SPONSORS:

Deutsche Bank | HSBC The world's local bank | RBS

CDS market too big to ignore

No treasurers should ignore credit default swaps (CDS), according to a session chaired by Matt King, Head of Quantitative Credit Strategy at Citigroup, which looked at who uses the instruments and why.

CDS are a form of insurance offering protection against credit events. For an investor, buying a CDS is just like investing in a corporate bond.

The conference heard that there was $36 trillion of CDS outstanding compared with $5 trillion outstanding in the underlying corporate bond market. The turnover in the bond market is dwindling as investors move over to CDS.

In the early days of the market, the main users were banks but now institutions such as hedge funds, traditional insurance funds and pensions are also using CDS. Historically used to buy banks protection on their loan book, CDS are now used for funding rather than hedging purposes.

Investors are able to create a balanced bond portfolio by going long of the CDS – in other words, selling protection, which gives the margin equivalent to investing in the bond. Combine this with an investment in a government security and an investor can hold a position in bonds which otherwise were illiquid or virtually unavailable.

CDS is important for treasurers as a hidden driver of investor behaviour when a company wants to do a bond or corporate restructuring. Examples of issues over CDS include GUS on its demerger into Experian and Home Retail Group and the Carlton/Granada merger.

The conference heard from Antony Barnes, Group Treasurer of Experian, and Charles van der Welle, Director of Treasury at ITV.

See page 34 of the Jan/Feb issue for more on the GUS bond saga. ■