ACT LEADING TREASURY PROFESSIONALS

TRENDS IN TREASURY

THE CONTEMPORARY TREASURER: 2013

UNDERSTANDING THE INFLUENCE OF TREASURERS ON CORPORATE STRATEGY

ABOUT THE ACT

The Association of Corporate Treasurers (ACT) sets the benchmark for international treasury excellence. As the Chartered body for treasury, we lead the profession through our internationally recognised suite of treasury qualifications, our focus on professional standards and our interactions with regulators and policymakers globally.

The ACT provides a wide range of professional development and networking opportunities centred on:

- professional qualifications and training courses;
- conferences, briefings and thought-leadership events; and
- publications, technical updates, guidance and dialogue.

ACT LEADING TREASURY PROFESSIONALS

Foreword

As a professional body, the ACT has two primary concerns: to advance the interests of its members, students and the wider treasury community; and to enhance the understanding and appreciation of corporate treasury as a discipline in financial and business management.

In many organisations, treasurers struggle to gain full acceptance of their capabilities. They are often seen as cash managers, not as contributors to financial and business strategy. What's more, the very definition of a treasurer varies significantly from company to company and, indeed, from treasurer to treasurer.

The ACT has recognised the need for a comprehensive survey of members' attitudes towards the evolving influence of treasurers on corporate strategy and business growth. This, the *ACT Corporate Treasurer Survey*, is the first such research in the ACT's 33-year history. By questioning a representative sample of treasurers from FTSE and non-FTSE organisations at various career stages, it aims to understand who the contemporary treasurer is (page 6), how he or she spends the working day (page 7) and how he or she interacts with the board (page 8). It also investigates how treasurers source funding (page 9), how they feel about regulation and their interactions with financial institutions, and how their organisations operate in emerging markets (page 10).

By demonstrating what, where and how today's treasurers are contributing to their organisations, we hope to go some way towards redressing the imbalance in perceptions about treasurers, their capabilities and their influence.

Executive summary

Treasury is both an operational and strategic discipline that needs managing in an integrated fashion. At a strategic level, treasury is about offering options for executive decision taking. With a broad perspective of the organisation and the environment in which it operates, the treasurer is ideally positioned to facilitate the integrated thinking that will help an organisation achieve sustainable value creation.

Our survey reveals that:

◆ Treasurers manage their time across a range of activities, split between functionalities (for instance, between cash and liquidity management and corporate finance), geographies (domestic, pan-regional and emerging markets) and governance activities (involving the board, annual reports and audit reporting).

◆ Treasurers spend on average 34% of the working day on functional matters, such as cash management, and 24% on strategic issues, such as capital structure or corporate funding policy.

◆ Respondents and their teams prepare reports for just over half of all board meetings, on average, and present at around a quarter of board meetings. Board interactions take various formats, but more often than not, boards act on the advice of their treasurers.

◆ Around 40% of business funding is through debt capital markets, with 33% from bank finance and 17% from equity capital markets.

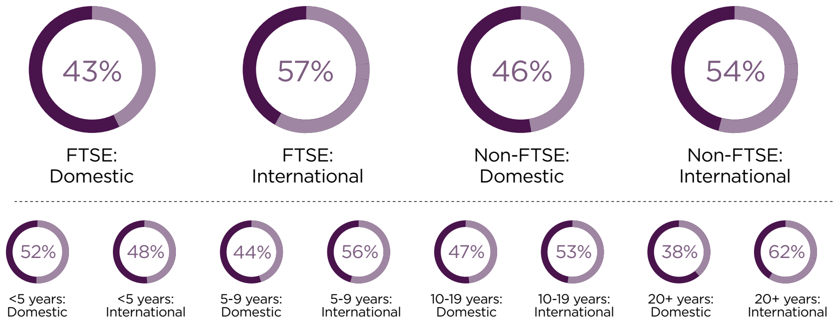
◆ Despite widespread vilification of banks and bankers, the vast majority of treasurers does not report feeling unfairly treated by financial institutions. Indeed, 73% say their business has been fairly treated, and 23% say treatment has been neither fair nor unfair.

◆ More than half of respondents (56%) say they believe there is too much regulation, while 41% feel regulatory levels are about right. Only 1% of those surveyed say there is too little regulation.

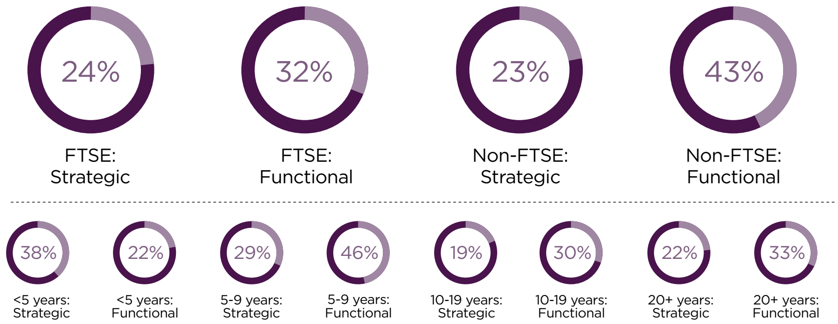
The questions that treasurers should be addressing are relatively simple: what do we invest in, how do we raise funding for that investment and how do we control the risks associated with funding and investing cycles? Treasurers need to be clear and concise when discussing appropriate choices, execution practicalities and likely outcomes. Depending on an organisation's size and type, a treasurer may well need to respond to several different stakeholders, all of whom will need to be involved in the treasury process, on any given issue. ◆

UNDERSTANDING TREASURERS BY ORGANISATION TYPE AND LENGTH OF TREASURY CAREER

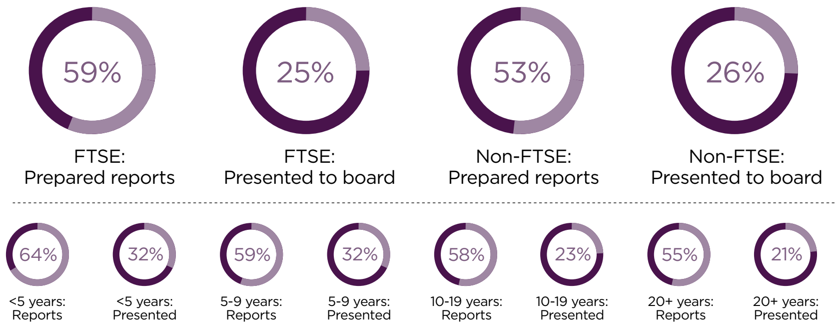
WHAT PERCENTAGE OF TIME DO YOU SPEND ON DOMESTIC VERSUS INTERNATIONAL BUSINESS?



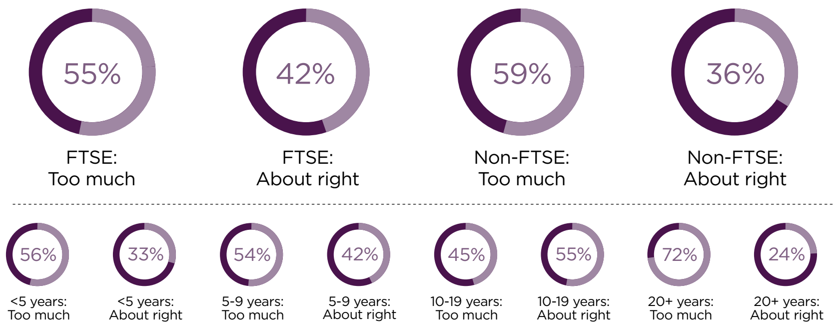
WHAT PERCENTAGE OF TIME DO YOU SPEND DEALING WITH STRATEGIC VERSUS FUNCTIONAL ISSUES?



WHAT PERCENTAGE OF BOARD MEETINGS HAVE YOU AND YOUR TEAM PREPARED REPORTS FOR AND PRESENTED AT?



WHICH BEST REFLECTS YOUR VIEW OF CURRENT AND FORTHCOMING REGULATIONS?



Today's treasurer

Treasurers and their treasury management vary significantly between organisations. Although the size of the profession is increasing, few people embark on their careers with the aim of becoming a treasurer, and treasury activity may be recognised under different functional titles (such as risk management). Similarly, many treasurers acquire titles linked to different disciplines (such as corporate finance). There are also differences when it comes to functional focus (operational versus strategic), the geographic reach of business or its level of complexity, and a treasurer's own depth of experience.

Our survey respondents, for instance, spend on average 44% of their time on domestic matters and 56% on international business – but the gap is wider for those with a higher-than-average strategic remit. Treasurers with an international focus spend slightly more time on strategic matters than those with a more domestic focus (graphic 1).

The gap is also wider for those with 20 or more years of experience; the bigger the company and the more complex its operations, the more experience a treasurer is likely to have. The correlation between longevity and achievement is marked by the finding that nearly two-thirds of respondents with a career of more than 20 years are in leading treasury functions.

Given the relative youth of treasury as a profession, it is not surprising that there is a gender imbalance. The ACT's own student and member database confirms that since the mid-1990s, more women are entering treasury as online learning and flexible roles enable adaptive working environments (graphic 4).

In almost all circumstances, professional treasury qualifications are the key to career progression in developed and developing markets. Also noteworthy is that the gender profile of non-FTSE organisations is skewed in favour of women. ◆

UNDERSTANDING TODAY'S TREASURER

The working day

Rather than function independently, treasurers are now expected to bring treasury management into their businesses. Supply chain management, for instance, now involves treasurers in counterparty credit risk and all aspects of payments and receivables, ensuring they are working with procurement colleagues.

Treasurers and their teams must make efforts to get close to operational management. There are barriers between head office and operations; treasurers must show they can understand the view of operations and demonstrate organisations will be better off for the application of their deep knowledge of financial risk.

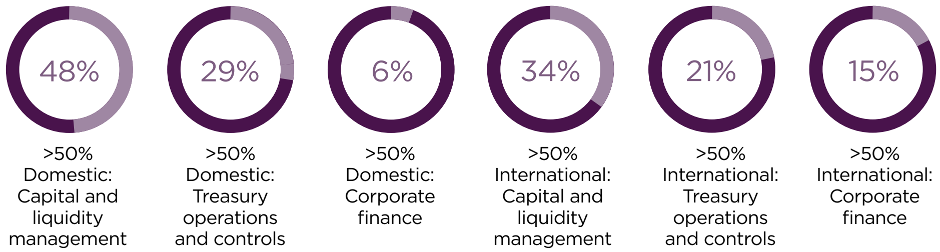
Our survey reveals an interesting split between those whose focus is more domestic and those who work primarily on international business (graphic 5). Capital and liquidity management and treasury operations are much more important areas to those with a domestic slant than internationally, where there is a more even split across all treasury disciplines. It might seem obvious, but whether this truly reflects business needs or individual capabilities – and thus allocation of time – is unclear.

There is also a clear division in focus between businesses that fund ahead of their cycles (where capital and liquidity management is the prime activity) and those that do not (where we see an equal emphasis on capital and liquidity management and treasury operations and controls) (graphic 6).

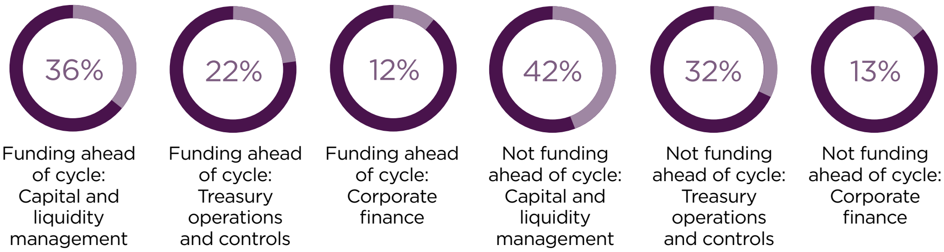
The relationship between funding and the business cycle has an academic library all of its own, and readers should be wary of drawing sweeping inferences based on the categorisations of respondents' businesses. What the survey shows, however, is that more than two-thirds of the organisations represented, regardless of type, are funding in advance of their business cycles. The ACT has long held the mantra of 'fund early, fund often and fund long' – and it is fascinating to see treasurers following this path. ◆

THE TREASURER'S ACTIVITY

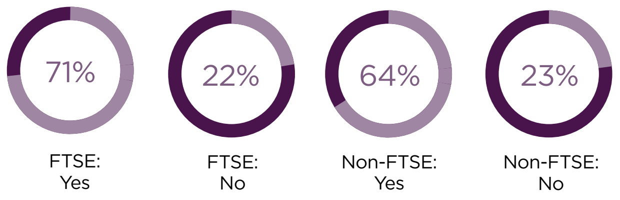
5. RESPONDENTS WITH DOMESTIC VERSUS INTERNATIONAL FOCUS: WHICH DO YOU CURRENTLY SPEND THE MOST TIME ON?



6. RESPONDENTS WHO FUND AHEAD OF CYCLE VERSUS THOSE WHO DO NOT: WHICH DO YOU CURRENTLY SPEND THE MOST TIME ON?



7. RESPONDENTS FROM FTSE VERSUS NON-FTSE ORGANISATIONS: DO YOU FUND IN ADVANCE OF YOUR BUSINESS CYCLE?



Interaction with the board

Traditionally, treasury reports have been dry and technical, using numbers that may or may not tell a story: there has been a belief that because something can be measured, it is meaningful and useful.

That presumption no longer holds. Treasurers should remember that it is often not just those who present to the board who need to be better prepared; board members themselves frequently lack core skills, and particularly financial understanding.

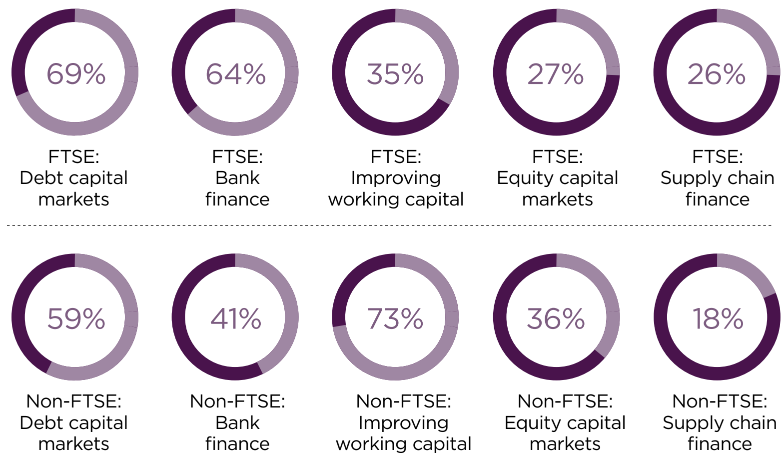
One obvious measure of the development of the treasurer's role is his or her relationship with the board. Treasury plays a key role in determining an organisation's financial strategy, working out how to finance business policy and how to manage the ensuing risks. Boards are interested in key financial metrics: will the proposal contribute to shareholder value? How is it being measured? Will the projected return exceed the cost of capital? They are also concerned with risk (what are the risks? What is the evidence?) and with corporate governance, legal and compliance issues.

Unsurprisingly, our survey tells us that funding via debt capital markets or bank sources is for more than two-thirds of respondents the key topic on which they give advice to their boards. Raising capital via equity and managing supply chain finance follow somewhat distantly – fewer than a third of treasurers have given advice on these topics. For non-FTSE businesses, the picture is less clear, and improving working capital (perhaps because of reduced access to capital markets or bank finance) is key (graphic 8).

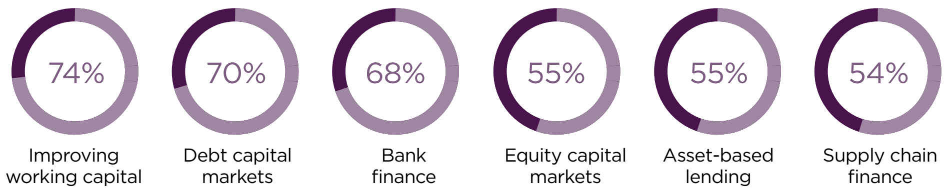
Quantification of the board's risk appetite is not always easy. In recommending various options, therefore, the treasurer needs to model scenarios to show a mix of outcomes; there is not always only one optimal action. The good news is that boards accept advice on improving working capital, debt capital markets and bank finance around 70% of the time (graphic 9); when respondents are unable to say the board has taken their advice, this is often because the matter is still under discussion. The treasurer also contributes to external reporting where both performance and policy are communicated to investors. ◆

TREASURERS AND THE BOARD

8. RESPONDENTS FROM FTSE VERSUS NON-FTSE ORGANISATIONS: ON WHICH TOPICS DO YOU ADVISE YOUR BOARD?



9. HOW OFTEN DOES THE BOARD TAKE YOUR ADVICE?



Where does the money come from?

The businesses included in this survey buck the traditional British and European trend of predominantly sourcing finance from the bank market. On average, debt capital markets make up 40% of funding; bank finance, 33%.

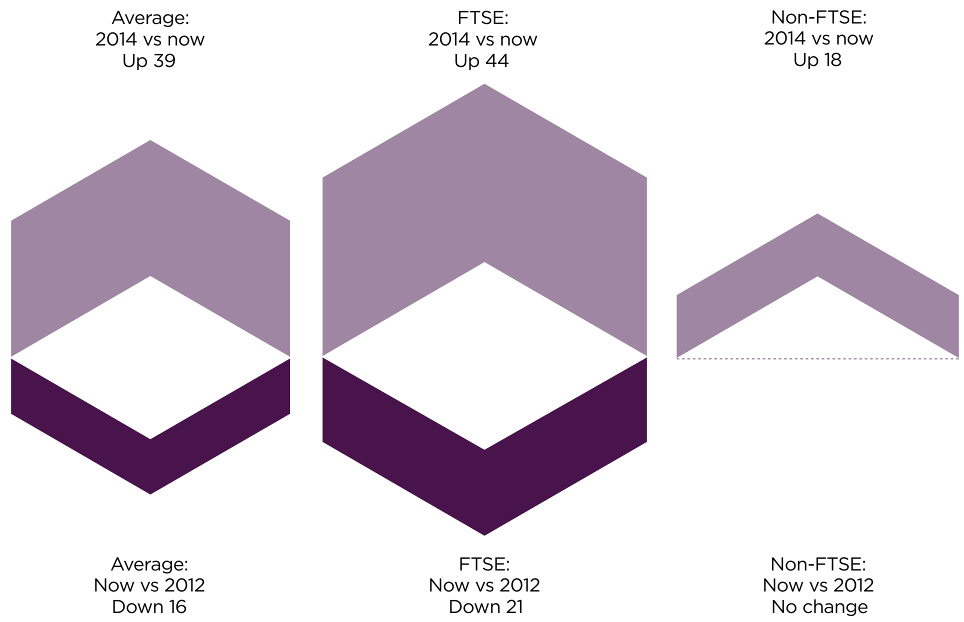
Interestingly, despite their focus on improving working capital, the proportion of funding for non-FTSE businesses is striking: around 44% from debt capital markets versus 24% from bank sources. Equity funding sits at around 17% across the range of our respondents (and, of course, funding is not the only form of credit business needs from the banking system) (graphic 11).

And the cost of credit? Our respondents are generally happy that credit is cheaper than 12 months ago, but expect costs to increase over the next 12 months (graphic 10).

There is no obvious driver behind this belief, but it is clear from other evidence that treasurers of investment-grade corporates have been taking advantage of cheaper debt capital market conditions in the past 12-24 months.

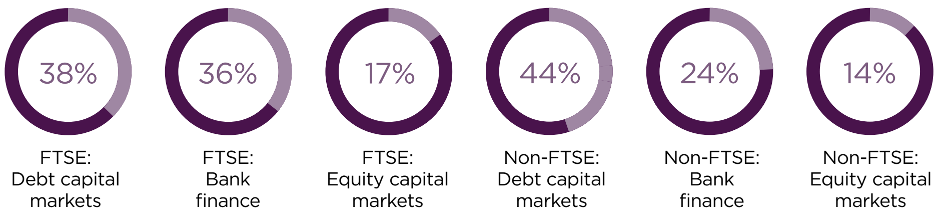
That issuance trend has continued into 2013 across sterling, euro and US private placement (USPP) markets. Across the board, debt markets were very active in 2012, with the USPP market breaking records for corporate issuance; at least for larger, investment-grade issuers, buoyant public markets were the norm. The corporate syndicated loan market in Europe in 2012 was down 40% on 2011, and the message here is that this trend will continue.

Probably the single most significant feature of the funding markets is the determination of treasurers to do more and achieve more. This can be realised by negotiating better terms and creating more flexible arrangements, as well as by delivering a more optimal mix of finance or leaner, more efficient and effective treasury management. ◆



10. HOW DO YOU PERCEIVE THE COST OF CREDIT CHANGING?

11. RESPONDENTS FROM FTSE VERSUS NON-FTSE ORGANISATIONS: WHERE DOES YOUR FUNDING COME FROM?



Topical issues

There is no doubt that banks and bankers have borne the brunt of public dissatisfaction over the ramifications of the financial crisis. That said, our respondents are generally happy with their interactions with financial services organisations; indeed, none reports feeling unfairly treated (although fairness is, of course, subjective, and we cannot say whether this judgement is driven by transaction- or relationship-oriented banking practice) (graphic 12).

In the UK context, 'house' banks clearly still have considerable relevance, although given the funding dynamics seen earlier, moving from bank finance to debt capital markets will mean corporates engage with different stakeholders and have less reliance on their banks. This will have implications for transactional versus relationship banking models and pricing, credit availability and service quality.

A particular feature that treasurers need to beware of is the declining credit quality of banks (and perhaps the wider financial system). As well as the counterparty risks for own cash and undrawn revolving credit facilities, banks are often used to enhance the credit of an organisation through letters of credit or bank guarantees. Where weaker banks are not being accepted by commercial counterparties as issuers of these products, treasurers are having to change their practices and possibly their banks.

One of the results of the financial crisis – not caused by the activities of treasurers in the real economy, of course – is the rise of regulation. Treasurers undoubtedly have to manage a range of issues and processes that did not exist 10 years ago. The question of whether this surge in regulation will have its desired effect is not one we can hope to answer here; what we can say, however, is that regulatory changes since the start of the economic crisis have added and will continue to add to the cost of both funding and derivative hedging.

The treasurers we surveyed seem to be somewhat split: those with a predominantly international and/or strategic focus are concerned about the impact of regulation, whereas those with a more domestic bias appear less perturbed (graphic 13).

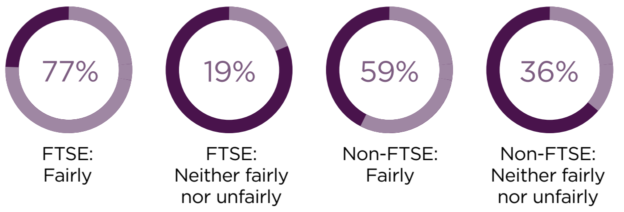
Across the board, 56% think there is too much regulation; 41% feel it is about right; and 1% believe there is too little. ◆

EMERGING MARKETS

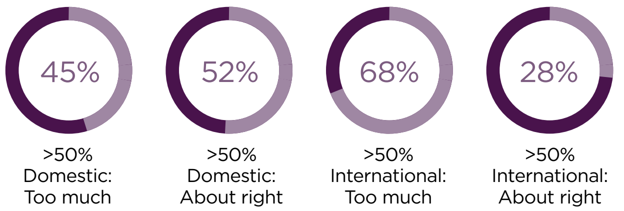
Given the majority of businesses covered in our survey have turnovers in excess of £1bn, it is not surprising that they are well represented in the main emerging markets. Of the 71% currently operating in emerging markets, 44% have involvement in China, 39% in India and 37% in Brazil; in all, respondents cite operations in 20 different countries. Treasurers' concerns in these markets tend towards capital controls and political stability – but as a professional body that considers ethical business behaviour part of an individual's membership responsibilities, it is gratifying to see the importance of ensuring ethical operations (allied with concerns over legal infrastructure) also features relatively high on treasurers' agendas.

FINANCIAL RELATIONSHIPS AND REGULATIONS

12. RESPONDENTS FROM FTSE VERSUS NON-FTSE ORGANISATIONS: HOW DO YOU FEEL YOU HAVE BEEN TREATED BY FINANCIAL INSTITUTIONS?



13. RESPONDENTS WITH DOMESTIC VERSUS INTERNATIONAL FOCUS: WHICH BEST REFLECTS YOUR VIEW OF CURRENT AND FORTHCOMING REGULATIONS?



METHODOLOGY

The findings in this report represent the first iteration of a tracking study into the influence of treasurers on corporate strategy.

Telephone interviews were conducted by a professional research firm, with 100 treasurers randomly selected from the ACT's membership lists.

The interviews took place between 24 January and 8 February 2013.

The sample comprises treasurers working for the following types of organisation:

- 43% from FTSE 100 organisations;
- 33% from FTSE 250/FTSE smallcap organisations; and
- 24% from non-FTSE organisations.

Sixty-six per cent of the businesses represented have turnovers greater than £1bn.

Over time, our intention is to expand this survey both in numbers and geographically to include contributions from members of the European Association of Corporate Treasurers.

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