

# The Association of Corporate Treasurers

## Comments in response to ***The Interim Report of the Independent Banking Commission*** April 2011

July 2011

### The Association of Corporate Treasurers (ACT)

The ACT is a professional body for those working in corporate treasury, risk and corporate finance. Further information is provided at the back of these comments and on our website [www.treasurers.org](http://www.treasurers.org).

Contact details are also at the back of these comments.

We canvas the opinion of our members through seminars and conferences, our monthly e-newsletter to members and others, *The Treasurer magazine*, topic-specific working groups and our Policy and Technical Committee.

### General

The ACT welcomes the opportunity to comment on the Interim Report.

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We are broadly sympathetic with the approach taken by the IBC. However, we would like to make a number of observations.

## **Competition in wholesale and investment banking markets**

We share the views of your study. We believe that attitudes will change only slowly. While the reputed influence of major investment banks over senior corporate executives remains, analysis will not be the driver of all corporate behaviour in this field.

## **Provision of risk management and trade-finance tools to small and mid-sized businesses**

We believe that smaller businesses, perhaps with only one or two banks, use their banks as their access to most financial services including equipment leasing, provision of trade finance, guarantees and letters of credit, provision of derivative instruments (foreign exchange etc.) as well as general finance. Small firms benefit from greater simplicity in their credit based relationships. This is a disincentive to use non-banks that do some work in this field. Retail banks or the part of banks within the retail ring-fence should be able to continue to provide these services.

## **Large corporate deposits and borrowings**

We see the mobilisation of individual deposits to provide loans to businesses of all sizes as a key social benefit from banking. Accordingly, we believe that retail banks should be able to take deposits from and make loans etc. available to large companies. We observe that foreign retail banks from Japan and other countries in Asia and Europe do take part in European corporate syndicated lending. Indeed they are often essential suppliers and available in times of stress – both as they may be less affected by our domestic economy and because they may have in their home countries structural excesses of deposits over loans and they seek to deploy these funds profitably.

We understand that while medium and small business lending, likely to be included in a retail ring fence, is relatively high risk, lending to investment grade corporates is relatively low risk. This is reflected in proposed risk-weighted capital requirements. The inclusion of appropriate large company lending in retail bank portfolios may also have beneficial portfolio effects for the retail banks.

Wholesale deposits do not benefit from guarantees, so companies have to undertake credit analysis and manage and limit their exposures to banks. Companies often have large non-deposit exposures to banks from derivative positions, guarantees, etc. that have to be taken into account. To the extent that ring-fenced retail bank operations can be seen as having a different credit standing from that of a wholesale bank in the same group, this diversification possibility is valuable despite the absence of any guarantee.

Over time, as banks change strategies, relative pricing etc., new patterns of behaviour will emerge for them and for their commercial clients of all sizes. Allowing large corporate deposits on both sides of a retail fence will allow this to happen to greatest advantage and with least disruption.

## The Association of Corporate Treasurers

The Association of Corporate Treasurers (ACT) is the leading professional body for international treasury providing the widest scope of benchmark qualifications for those working in treasury, risk and corporate finance. Membership is by examination. We define standards, promote best practice and support continuing professional development. We are the professional voice of corporate treasury, representing our members.

Our 4,200 members work widely in companies of all sizes through industry, commerce and professional service firms.

For further information visit [www.treasurers.org](http://www.treasurers.org)

Guidelines about our approach to policy and technical matters are available at <http://www.treasurers.org/technical/manifesto>.

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