

What does Treasury do?

Anyone that has asked that question with a view to maybe forging a career in that direction or simply to gain an understanding of associates work practices was more than adequately supplied with an answer at the annual *Introduction to Treasury Conference* at the elegant Millennium Gloucester Hotel in London.



The company I work for, **Frontline Ltd**, is owned and operates solely for a number of shareholders, the largest being **Emap plc**. Our job is to distribute their magazines. We take them from the printer and our task is to get them to the consumer 'in the right place, at the right time, in the right quantities'. Although my title is financial accountant at Frontline, just less than half of my role involves treasury work. As a part of the Emap group, mine is more a back office role but Frontline have a 50% joint venture in another magazine distribution company for which I perform a small but broader operation. As I have no formal training, I was pleased to get the opportunity to attend this conference and reinforce the knowledge I have

gained by experience in treasury work. The chairpersons over the two day event, Melanie Duke and Patricia Scott held the proceedings together with expertise – not always easy when faced with one or two speakers who found 45 minutes an inadequate time to express the enthusiasm they feel for their work. The 16 speakers, including chairpersons, all hold senior positions in the corporate world and have a number of years experience to pass on to us. After an introduction, day one began with an insight into the role of treasury, ie what functions are performed, how the treasury department has evolved into what it is today and how does it fit in the structure of the company. This first session provided a good grounding for the rest of the conference. The topics covered over all went from basic cash management and investment of surplus funds to assessing and implementing a treasury system and to market arithmetic, tax and accounting issues and financial instruments. We were all given food for thought towards the end of day one when a gentleman, working in the field of banking and commercial fraud, highlighted the real risks around treasury without tight security and controls.

At the end of the two days I left with many questions to ask and many ideas to be implemented.

But I had doubt as to 'What Treasury does'. ■

SUSAN WATTERS

Pros and cons of securitisation

On 20 February the Association held one of its popular evening symposia at Grocers' Hall. This symposium *Securitisation – a balanced view* was sponsored by **Standard & Poor's**. It was chaired by late replacement Brian Welch with infectious enthusiasm and featured presentations by two representatives from S&P and two practitioners with experience of securitisation. The 'balanced view' was provided by each speaker reflecting upon the pros and cons of securitisation rather than by pro- and anti-securitisation speakers.

Kurt Sampson of S&P set the scene by explaining the key characteristics of securitisation and the development of the market. His colleague Lindon Neil then described the way in which S&P goes about the process of rating securitised debt. The key message from these two presentations was that the rating agency needs a large amount of information



from the issuer. Providing this is both a cost and a time constraint, but can also be turned into a benefit, in enhancing the rating and providing the issuer with a better understanding of their own business.

Julian Davis of **BUPA** and Gill Rowe of **PHH** talked about their experiences of securitisation. They echoed S&P's comments on the information requirements and the burden that put on their own resources, leading to problems in completing the securitisation without disrupting the day-to-day operation of the business. They recommended doubling the expected timescale, putting as much effort as possible in planning the issue up-front and taking care in the choice of advisors.

Following the presentations there were many questions and comments from the audience, and animated discussions continued in the drinks reception afterwards. The general conclusion from the evening seemed to be that securitisation has a valuable place in the larger company's diversified funding portfolio, but that the complexity of the process and the cost and time demands of issuance prevent smaller companies from taking advantage of it. ■

MARTYN SMITH

A tale of two economies

An audience of almost 100 gathered in the offices of Whitehead Mann on 1 March to hear Dr DeAnne Julius, an independent member of the Monetary Policy Committee, contrast the US and UK economies under the title *A Tale of two Economies*.

She first compared the cycles of the two economies and drew the conclusion that they displayed broadly similar characteristics, but with the UK lagging behind the US by some months. Graphs showing GDP growth and labour productivity were almost identical in shape as were the shapes of graphs for unemployment, although the UK levels were consistently weaker than those for the USA. Dr Julius introduced the concept of the "non-accelerating inflation rate of unemployment" which for the US has probably fallen from 6% to below 4% – any lower than this and there is the risk of inflation. Her final conclusion in this section was that the strength of the dollar since 1996 was largely attributable to portfolio investment into the US from the UK and the euro area in response to an expectation of higher US growth.

Next she contrasted the economic policies within the two countries. Once again the similarities were strong. Graphs of fiscal balances were very similar and the two interest rates followed similar lines, except for the recent times when UK rates unusually fell below US counterparts – whereas trends in euro interest rates were quite different from either. She referred to a neutral interest rate in the US of 5.5%, which neither stimulates nor inhibits US economic growth.



Dr Julius then contrasted the objectives of the MPC and the Fed. The MPC sought to help deliver price stability and to support the Government's economic policy including its objectives for growth and employment, and has been set a target figure of 2.5% for RPIX. The Fed has a mix of objectives including full employment and price stability. US inflation has steadily risen in the last three years from 1.5% to 3.8%, whilst UK levels have fallen from 3% to just under 2%.

Her final section compared the possibilities for a 'V' or 'U' shaped recovery in the US economy, although one questioner posed the question of an 'L' shape! The 'V' shape implying swift recovery required prompt and effective Fed action on interest rates, quick tax cuts from President Bush and employment and confidence remaining high. The 'U' shape will occur if Fed action is ineffective, firms stop investing and weak consumption aggravates the slowdown. Dr Julius was unsure which scenario would prevail, but we would all know in the coming months.

She then addressed whether there was a special relationship between the two countries and their economies. On balance she felt there was, citing high levels of foreign direct investment and similar financial markets. On the other hand there were significant differences including the strong trade links the UK has with the European Union.

The debate ended with a vigorous question and answer session during which Dr Julius opined that the shift from manufacturing to service was sustainable because manufacturing productivity was rising. This means that manufacturing employment can continue to fall while manufacturing output grows.

This was the fourth Annual Symposium sponsored by Whitehead Mann and the Association is most grateful both to Dr Julius and to Whitehead Mann for their support. ■

MIKE BRYANT
The Mayflower Corporation

CPD celebrates first birthday

"Standard & Poor's is delighted to renew its sponsorship and support the ongoing development of the Association's CPD tests. The success of this ground breaking initiative is highlighted by the extensive use by the membership, receipt of the Global e-Business Innovations Award and the ongoing academic interest in this form of distance learning. Standard & Poor's looks forward to CPD's continued success."

Tony Assender
Vice President, Rating Evaluation Service, Europe
Standard & Poor's

Since CPD's launch a year ago, the knowledge service has enjoyed tremendous success and I would like to say a personal thank you to all those who have been involved. Particular thanks to Standard & Poor's for their commitment to support the maintenance and further development of CPD for another year.

CPD achievements to date include:

- winner of the Global e-Business Innovations Award 2000 for Management Education (the first time that a professional body has won this prestigious award since its introduction in 1993);
- 345 visitors during the first week;
- 4596 visitors in total to date; and
- members starting to use the CPD test questions as a recruitment tool.

CATHERINE GORHAM

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