Finding the funding

Executive summary

- The fourth in the RBS-sponsored series of ***talkingtreasury*** forums and the ninth overall (although eagle-eyed readers will have spotted that we overcounted in last month's report on the Dubai event) marked the first opportunity for treasury professionals to discuss and debate the ACT's critical survey on the credit crisis and corporates.

The opening session of the ***talkingtreasury*** conference looked at the impact of the credit crisis on corporate liquidity and funding, and was led by Gerry Bacon of Anthem Corporate Finance and former Vodafone group treasurer. Along with the ACT's policy and technical team, he was heavily involved in the preparation of the ACT survey (Credit Crisis and Corporates: funding and beyond) and spent some time giving an overview of the report's findings. This laid the foundations for a panel discussion involving corporates of considerably differing sizes and financial needs.

One of the panel members, Stephen East, former group financial director at Woolworths, added some early spice to the session by talking about his experiences during the period leading up to the demise of Woolworths late last autumn. While accepting that the retail side of the operation was in difficult circumstances, East argued that entertainment distribution business within the group was very successful.

In his view, when deteriorating market conditions began to place severe strains on the business during 2008, the nature of UK insolvency processes coupled with severe deleveraging in the banking sector meant that closing the whole organisation was the "go to" option for lenders. He also had some instructive words for delegates about the credit insurance market and how potentially vulnerable corporates should engage with these players and their suppliers. Overall, East's view was that the key element in the current financial crisis is the lack of confidence in banks, which has pervaded all aspects of business and finance.

By contrast, Stephen Pugh, FD of brewer and retailer Adnams, painted a different picture of corporate life. With a turnover of around £50m and a market cap of around £30m, Adnams very much represents an smaller business perspective; it has a long-standing relationship with its main bank and occupies an important economic position in its local community. Pugh was well aware of the difficulties faced by small companies in current conditions and felt strongly that the government's efforts to support large, investment-grade corporates (by means of asset purchase schemes and the like) were clearly unfair to struggling businesses without access to bank financing or capital markets.

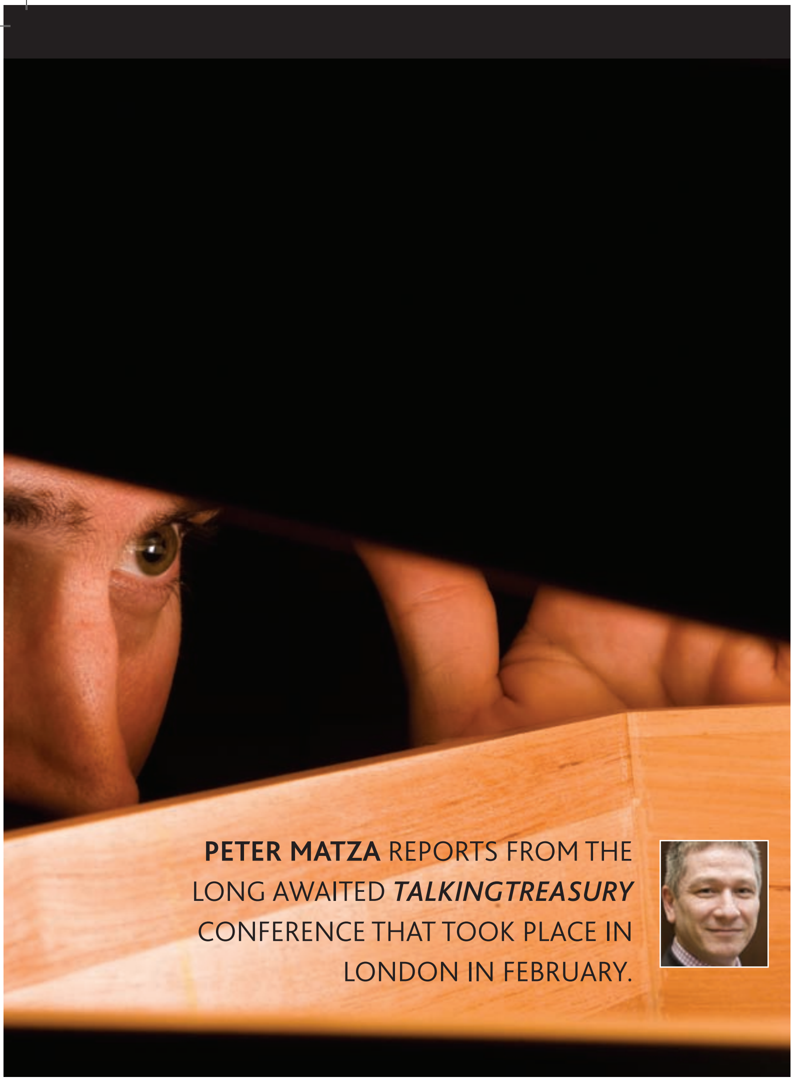
Cheryl Sunderland from Shell gave delegates a perspective from the other end of the capital spectrum from Adnams and Woolworths. However, even Shell has had to spend considerable time looking at credit and supplier finance issues particularly when it has found itself more highly rated than almost all its financial counterparts! Shell has also found interest rate value in the (inverted) long end on the dollar yield curve, issuing a 30-year bond which has been left in fixed rate against Shell's normal practice.

The conclusion of the discussion was that credit in all its forms has become expensive, difficult to source and complex to arrange. Treasurers are having to engage directly with many more players in the markets as all types of syndicated agreements and structures – loans, project finance, joint ventures, and so on – now require negotiation with each lender.

Cash management and forecasting has also become much more prominent because of a reduction in unused facilities and the consequent reduction in available headroom.

THE RISK PRINCIPLE The first panel discussion was followed by a comprehensive risk management study, presented by Alex Hall of ABB, the Swiss/Swedish global engineering and projects business. His theme was the development of a re-engineered corporate treasury following the business difficulties of ABB between 2001 and 2003. The treasury had been widely decentralised, the financing structure was reliant on front-ended commercial paper, and the business was heavily exposed to asbestos liabilities.

In response ABB centralised its treasury strategy, introduced comprehensive policies and controls, moved to longer–term financing strategies and adopted an enterprise risk management approach to



PETER MATZA REPORTS FROM THE LONG AWAITED ***TALKINGTREASURY*** CONFERENCE THAT TOOK PLACE IN LONDON IN FEBRUARY.

TREASURERS ARE HAVING TO ENGAGE DIRECTLY WITH MANY MORE PLAYERS IN THE MARKETS AS ALL TYPES OF SYNDICATED AGREEMENTS AND STRUCTURES – LOANS, PROJECT FINANCE, JOINT VENTURES, AND SO ON – NOW REQUIRE NEGOTIATION WITH EACH LENDER.

the relationship between the business and the treasury. Hall said the moves had been successful but that there could be no resting on laurels as the team expanded the risk approach across new areas of the business, such as property management. His consistent comment to the delegates was that now was the time for treasurers to impose their skills and knowledge on their colleagues and demonstrate the value of treasury management.

Following neatly on from Hall's presentation, Jonathan Chesebrough from RBS gave his thoughts on the concept of strategic risk management. He posed a variety of questions that treasurers should address when looking at their business and approach to risk:

- What risks should the treasurer manage: financial only or a wider focus?
- What is the purpose of hedging?
- What impacts will a hedging policy have on treasury practice in terms of forecasting, reporting and accounting?
- What are the impacts on stakeholders (investors, business management, ratings and credit reference agencies)?

In the ensuing panel discussion, Anthony Barnes from Experian, Nick Feaviour from Kingfisher, and Lucy Fuller from Smith & Nephew offered their thoughts on how to address these issues.

All three pointed out there was a difference between working towards good practice and what the current markets would allow. For example, bank appetite for longer-dated hedging transactions has diminished and cost has risen, so strategic hedging has had to be adjusted to reflect this reality. In addition, valuations for accounting and economic purposes have become much more difficult to verify, which has caused some problems with auditors.

All panellists agreed that the demand for information has risen dramatically from all stakeholders and the panel's advice was that this should be clean, clear and simple and as transparent as possible.

ROLE CHANGE The final session of the day focused on the changing role of the treasurer and what it means to be a treasurer in today's business environment. In the history of ***talkingtreasury***, this topic has probably produced as much variety in approaches as almost all the others put together. The panel assembled for this discussion did not disappoint in articulating some strong views. The debate was chaired by Malcolm Cooper, tax and treasury director at the National Grid, and the contributors were ABB's Hall, Alex Harris from Virgin Airways, and Sean Grace from Securitas.

There was general agreement that this is both an exciting and critical time to be a treasurer. The panel clearly believed that current markets represent an opportunity for treasurers to sell themselves and their activities widely across their businesses. The importance of communication skills was touched on: the language of treasury and finance has become overwhelmed with jargon and staff must be able to cut through this, especially for non-finance operations colleagues.

However, this means treasurers must be prepared and methodical, and demonstrate experience and depth. There was some divergence of opinion over the type of experience and whether treasurers would benefit from wider exposure to management roles. As ever, the treasurer versus accountant debate reared its head. The argument is best diffused by effort on both sides: the treasurer to understand the accounting, and the accountant to understand treasury.

Once a treasurer has been able to establish a remit, they must be able to execute and demonstrate added value. Whether they use formal key performance indicators or take a more informal approach, treasurers and their teams need to be able to show their worth.

One interesting suggestion was that smart treasurers will report on unmeasured risks (to make the point that the treasurer should be managing them) as well as on unknown risks (again, to emphasise that treasury skills can be adapted to wider business areas such as mergers and acquisitions, physical insurance, commodity management and creditor and debtor management, to name a few). In short, treasures should look to round out their role to be at least contributors to if not the stewards of corporate financial strategy.

The success of ***talkingtreasury*** in London once again demonstrated the clear need for practitioners to step back from the noise around their roles and draw deeply on the knowledge and experiences of their peers.

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You can download the ACT's Credit Crisis and Corporates report from: http://www.treasurers.org/creditcrisisimpact