A long shadow

WHEN TALKINGTREASURY – THE INTERNATIONAL THOUGHT-LEADERSHIP FORUM FOR TREASURERS – RETURNED TO LONDON THIS YEAR, IT WAS CLEAR THAT THE GLOBAL FINANCIAL CRISIS HAS RESHAPED THE TREASURY LANDSCAPE. **PETER WILLIAMS** LISTENED IN.

The ***talkingtreasury*** event, sponsored by JP Morgan Asset Management, was introduced by ACT chief executive Stuart Siddall, who reminded delegates that the role of the treasurer had never been more important and that boards of directors remained keen to hear the views of their treasurers. He asked for the event to be a participatory one, and he got his wish, starting with an interactive survey of the 100+ treasury professionals in attendance. The results (see box) suggest that while conditions are improving, caution remains the watchword, with the desire for stability still strong. The survey provides valuable insight and helps inform the thinking and policymaking of the ACT as it interacts with government, policymakers and the corporate and financial sectors.

The general consensus from the survey suggests that the worst of the financial crisis is passing, with funding a little easier to access and a moderate upswing in risk appetite. But the overall feeling is that a cautious approach is the only sensible course at this time.

The morning session consisted of a discussion between three group treasurers – Duncan Beardsley of Hammerson, Michael Day of Pearson and Paul Regan of Smufit Kappa – chaired by Nick Denman, managing director of JP Morgan Asset Management. The conversation focused on funding and liquidity in the new financial landscape. Each of the corporates had their own different experiences of how they had managed, faced with the credit crisis and the recession, a unique take, depending on their sector and particular circumstances. Some companies, Hammerson among them, had managed to repair their balance sheet with successful rights issues that had received the widespread support of shareholders.

All three treasurers agreed on the graveness of the situation that had faced them over that period. Even at the start of 2009 the world looked "a dangerous place", with little or no visibility. While the height of the global financial crisis may have passed, there has not been a return to the old ways. The threat of regulation in the form of Basel III stills hangs over banks and, in turn, corporates.

According to the Bank for International Settlement in a report at the end of 2010, the world's top 94 banks would have to raise nearly €58bn in fresh capital to comply with the Basel III rules. The panel suggested that this would be a difficult task to achieve; the only realistic options are cutting dividends and compensation, raising new equity and shrinking the balance sheet by reducing assets.

At the same time the financial markets are not working as they did pre-crisis. For instance, the collateralised loan obligation (CLO) market – whose repackaging and selling of debt is important to help liquidity and confidence – has still not properly re-opened. But there was no strong feeling that the market would return in strength.

The overall conclusion seemed to be on the experience of the last few years that nothing could be taken for granted any more.

IAS 39 James Lockyer, director of education at the ACT, chaired the session on upcoming changes in financial reporting. In his introduction, he observed that IFRS 9, the accounting standard on financial instruments, was an emotive subject in the treasury community. The discussion among the panellists – Fred Maroudas, director of treasury at airport operator BAA, Paul Outridge, head of treasury security printer De La Rue, and Kush Patel, Deloitte senor manager and IAS 39 technical accountant – revealed the degree of passion, as did the questions from the floor.

In terms of timing, the revised international accounting standard is expected to be published late this year, maybe June, with an

application date of 1 January 2013, although there is a possibility of that date being pushed back. Even so, events are moving fast, although ***talkingtreasury*** was told that the International Accounting Standards Board (IASB) is still paying attention to comments and has an open door policy. While there was a feeling that the revised standard was more corporate-friendly than its predecessor – in terms of what hedging is allowed and when – the amount of time that treasurers and their colleagues have to spend and the sheer weight of documentation they have to produce to prove the hedge mean that the whole process does not add value.

Despite all the work on the revised standard an expectation gap remains between accounting standard setters and preparers. The treasurers at ***talkingtreasury*** seemed in agreement that accounting for financial instruments should be driven by the realities of business strategy and risk management rather than having to follow a whole series of accounting rules.

Disclosure is another area where many treasurers seem unhappy. While there is bags of disclosure, questions remain over how helpful it is in terms of telling investors what they really want to know. And corporates are vehemently opposed to any disclosure that would give away any commercially sensitive information to competitors over future pricing.

While the standard setters came under fire, the preparers of reports and accounts also came in for some criticism for the quality of disclosure in financial statements in terms of explaining how a company manages its risk. The charge is that the words are just too anodyne. Whenever and whatever the standards which eventually come into force, it seems the debate over accounting issues will continue.

MONEY MARKET FUNDS Investment strategy amid the new global economics also came up for discussion. Peter Matza, ACT head of publishing, led a discussion with Nathan Douglas, secretary general of the Institutional Money Market Funds Association (IMMFA), Chris Parker, director of corporate affairs and group treasurer at international car retailer Inchcape, and Jason Straker, fixed income client portfolio manager at JP Morgan Asset Management.

The credit crisis renewed interest in the security of deposits of surplus cash from both treasurers and regulators, including a clarification of the meaning of money market funds (MMFs). The news that an MMF was breaking the buck – the fall in net asset value to below $1 a share is not meant to happen – following the collapse of Lehman sent shivers through fund managers, regulators and depositors.

Since then there has been an overhaul of MMF regulation, with the promise of more to come. But while it is not possible to predict what MMFs will look like in the future, the panel agreed that treasurers should not be put off using MMFs, which remain a key element in short-term cash management. The treasurers at ***talkingtreasury*** were asked where they were placing their surplus funds and the answer they gave (see box) underlined the importance of MMFs to overall liquidity management strategies.

Investors can take some comfort from the rules governing IMMFA funds, which set various bounds for the liquidity, maturity and credit quality of investments held by an MMF.

The key attraction of MMFs remains that they diversify holdings in high-rated paper at a fraction of the cost that treasurers would incur if they tried to replicate such a portfolio themselves. However, despite the advantages of security and liquidity, every treasurer knows that the search for yield remains unrewarding at the moment.

The quick survey

Q1. IS IT EASIER TO RAISE FUNDS NOW THAN A YEAR AGO?

Much easier	5%
Somewhat easier	52%
Unchanged	23%
Harder	20%

Q2. WHERE ARE YOU PLACING YOUR SURPLUS FUNDS?

Bank deposits	52%
Direct investments in government securities	3%
Money market funds	45%

Q3. WHAT IS MOST IMPORTANT TO YOUR ORGANISATION?

Bank sector stability	77%
Increasing bank competition	19%
More bank regulation	4%

Q4. HOW IMPORTANT ARE THE MEGA GLOBAL BANKS TO YOUR BUSINESS?

Very important	47%
Quite important	16%
Convenient	37%

Q5. WHAT IS YOUR BOARD'S RISK APPETITE LIKE?

Too cautious	18%
Balanced	71%
Not cautious enough	2%
Don't know	9%

While treasurers in Europe are embracing MMFs they still trail their US counterparts in terms of the range and volume of funds used. In the US mutual funds are a much more accepted part of investment portfolios for individuals and this filters through to corporate attitudes.

UK treasurers are moving away from treating MMFs as a commodity with the only focus on yield, and are now starting to have relationship-based discussions with the fund managers. This includes asking in more detail about how fund managers operate, the investment policy, the management of funds and in particular the security of the investment.

In a move clearly brought on by the financial crisis, corporates are subjecting all their investments to greater scrutiny and tightening their treasury policies. This is a sea change in behaviour. But it should be remembered that, however many questions they ask, treasurers are still bound to rely on the professional credit rating agencies' assessment of funds, especially when they have so many other tasks in their in-tray.

The essential role of MMFs remains to provide capital preservation and liquidity. Although yield has taken a back seat over the last few years, the first tentative signs are appearing that the desire for yield is returning, although no one is saying that security and liquidity should be sacrificed for the odd basis point. As one of the panellists noted, the simple investment of cash isn't simple any more; it is yet another strategic issue with which treasurers must wrestle.

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