Crisis and the conference

PETER WILLIAMS GOES THROUGH THE ARCHIVES TO DISCOVER HOW THE ACT'S ANNUAL CONFERENCE HAS BEEN SHAPED BY, AND REFLECTED, THE MOMENTOUS EVENTS OF THE PAST FEW YEARS.

2005 The events that rocked the world economy were still more than two years away but treasurers were already showing admirable caution. Back in 2005, the conference looked at the use of derivatives and corporates were unanimous that they should be used only for specific purposes – managing the interest risk surrounding debt issuance or switching the currency of debt proceeds, for example.

The rating agencies were lauded by treasurers for "long waited" improvement in transparency and communication. One treasurer praised how they shared their rating methodologies. Sarbanes-Oxley was a cause for concern: but treasurers were advised NOT to delist from US stock exchanges just because of the controversial legislation. Benefits could be gained from focusing on internal controls.

The 2005 conference heard about a financial crisis: the 1997 Asian Financial Crisis, which, according to speaker Sir David Tweedie – then chairman of the International Accounting Standards Board (IASB) – made the quest for a single set of global standards more urgent. It is fair to say that for most treasurers attending ACTAC, the Asian Crisis – even though it threatened a global meltdown – had nothing on the credit, financial and banking crisis that was to come.

The conference heard from Tesco chairman David Reid on how the company's success was down to trust. But perhaps the most prescient moment of all in ACTAC 2005 came in the panel session financing the future. The Treasurer of June 2005 noted: "The treasurers hailed the current diversity in the funding market but cautioned treasurers to take care in avoiding the bond market in favour of cheap debt from banks."

MAY 2005: BEYOND THE CONFERENCE HALL Less than a week before treasurers gathered, Tony Blair won a third consecutive general election victory with a majority of 66, reduced from 160. As treasurers met at the Celtic Manor in Newport, South Wales, the Bank of England inflation report for that month spelt out the reality that the British economy was facing the twin challenges of slower growth and rising inflation. Oh, and Wales had just won another rugby grand slam.

2006 The 2006 conference returned to South Wales to be told that companies didn't trust their banks any more. The stark message came from Rolls-Royce chairman and former investment banker Simon Robertson. He suggested it would be beneficial to go back to a time when you could get "good, solid and confidential advice from your bank without a fee or concern for your privacy".

Bank of England man Paul Tucker told treasurers that, like the Bank, they were positioned where the real economy met the financial economy. He explored why the UK was building up its cash reserves: shoring up pension black holes was one answer but it meant an unexpected weakness in UK business investment, well below the average of recent recoveries.

Treasurers were wrestling with Basel II but enjoying refinancing in the low-interest environment. Oil was firmly on the agenda, with the conference warned that those who had to try to plan for the cost of oil were "in for a wild ride".

Delegates were also encouraged to extract the value of working capital that was locked up in their financial supply chains. As one treasurer asked: "Who takes the risk, who does the work, who enjoys the benefits?"

MAY 2006: BEYOND THE CONFERENCE HALL A year on from the general election and it was a very different story politically. One of the worst local election results in Labour's history saw the governing party trail in third in overall share of the vote, losing control of 18 local authorities. It was also a memorable night in the ACTAC bar as delegates gathered to watch Arsenal on TV go down fighting 2-1 to mighty Barcelona in the Champions League final. One or two treasurers were somewhat crestfallen.

2007 Northern Rock was still five months away from hitting the headlines and the credit freeze had not ruined summer holidays, but treasurers attending the conference in Edinburgh knew what was worrying them most: funding, liquidity and credit. They were already concerned enough to agree that "cash is king and the lifeblood of any company".

More signs of trouble on the horizon came from Digby Jones. The former director-general of the CBI may have noted that the UK financial services were "world-beaters" but added that the sector was "not taking the whole of society with it", a thought that preceded by some way the anti-capitalism protests in major financial centres.

But it was still business as usual: boss of private equity house Advent International John Singer said that private equity was almost as important as stock markets at securing capital. The recent £11bn buy-out of Alliance Boots provided compelling evidence of the strength of the private equity market.

The role of treasurers came under scrutiny with fears that the responsibilities of the position were becoming ever more complex. There were also worries over IT systems, bank relationships and careers ladder. The session on credit default swaps (CDS) heard that there was $26 trillion of CDS outstanding compared with just $5 trillion on the underlying bonds. Treasurers were told that the turnover in the bond market was falling as investors turned to CDS. We were about to hear much more about these swaps.

MAY 2007: BEYOND THE CONFERENCE HALL Two months after the conference, Gordon Brown replaced Tony Blair as prime minister. On 16 May Alex Salmond was elected first minister of Scotland after winning a historic victory at the Scottish general election a fortnight before, right in the middle of the ACT's Edinburgh conference.

2008 The gloves came off at this conference in a heated question time session. The debate centred around who was to blame for the credit crunch: bankers, government, US interest rates were all put forward. One panellist suggested that growth would return if the economy were rebalanced while another voice suggested this was not the time to have confidence in the banks. And some banks were more exposed than others.

Where ACTAC 2007 glanced at good cash management, ACTAC 2008 couldn't get enough of the issue as a new era of financial volatility forced corporates back to cash. Treasurers were urged to improve working capital, with one treasurer suggesting poor working capital performance was an indicator of poor business performance.

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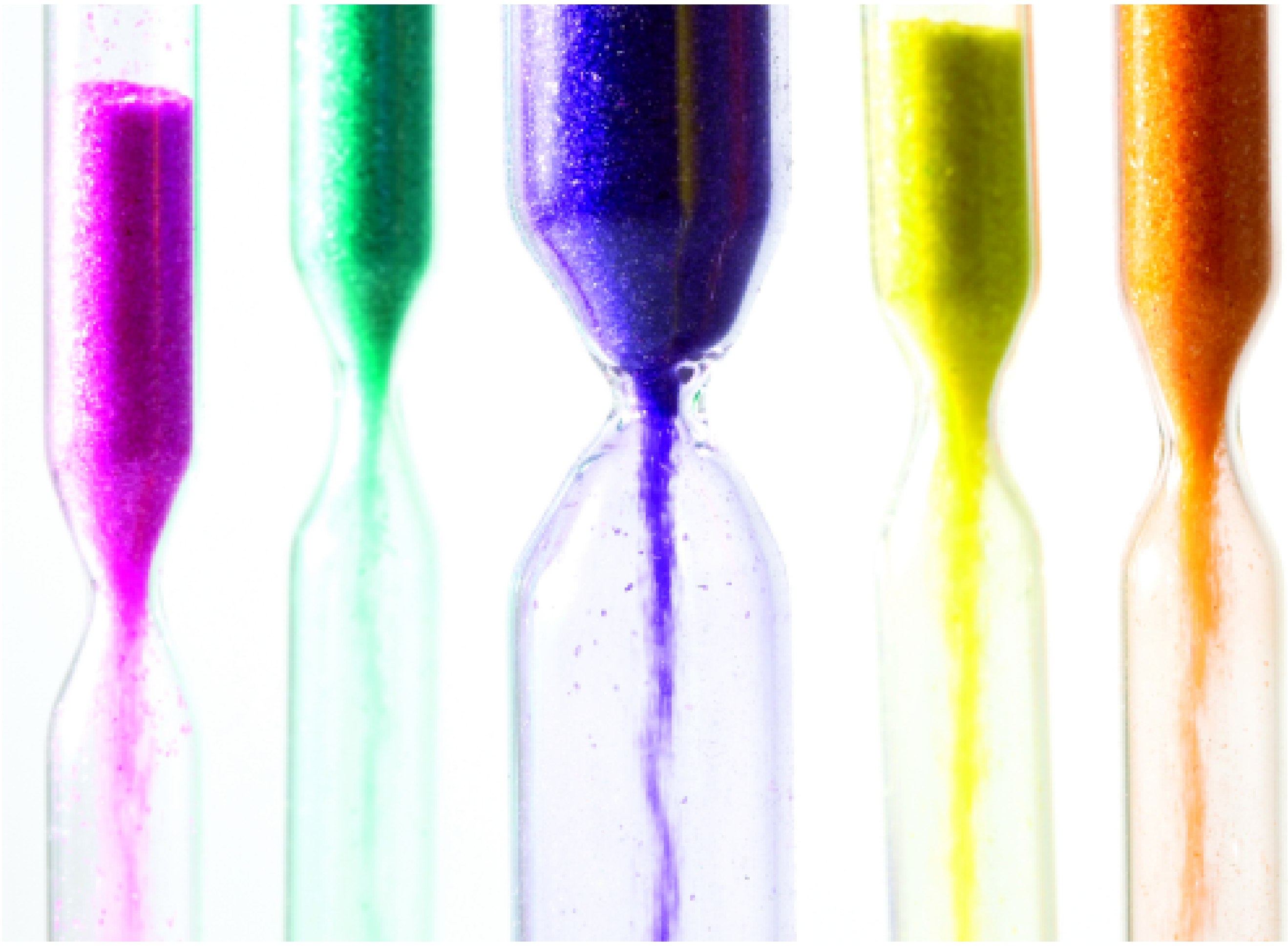

The delegates also looked at the risks arising from cross-border acquisitions. Though the conference reflected hard on the seriousness of the consequences of the risk management failings of Bear Stearns and Northern Rock, James Wolfenson, former president of the World Bank, in a masterful performance, invited delegates to take the long view. Examining the likely economic growth over the next four decades he questioned whether it was right that with nine billion people on the planet, two billion of them – mostly in Africa – should live in abject poverty.

MARCH 2008: BEYOND THE CONFERENCE HALL
Weeks before the ACT conference US investment bank Bear Stearns was rescued by rival bank JP Morgan Chase after the US government provided a $30bn guarantee against its mounting losses. It was the first sign that, rather than easing, the financial crisis was getting worse.

2009 By the time that treasurers had gathered in a new conference venue in Manchester, it was clear that the economy was on the rack, and looked like staying there, and the financial system and government finances were on their knees. And while Northern Rock had hurt, Lehman's had scarred. In the US Fannie Mae had been rescued and in the UK Lloyds took over HBOS. Weeks later the UK government stepped in with £37bn to stabilise Lloyds and RBS. On Valentine's Day, the US Congress approved a $787bn stimulus.

At ACTAC Alastair Clark, adviser to the Bank of England governor, argued that we needed to find more than short-term sticking plaster solutions. He described the build-up of debt that preceded the crash as "an undeclared coalition of interest between consumers, politicians and hedge funds and banks".

And if the central banker offered little comfort to the audience, maverick venture capitalist Jon Moulton offered even less, although with the benefit of three years' hindsight his predictions now look pretty much spot-on: he suggested that more regulation was inevitable and that it would try to deal "with the incomprehensible"; recovery would take a long time; and banks would take years to regain "sensible balance sheets"; debt would remain high as a proportion of GDP for the next decade.

The conference also heard from Paul Ward, head of corporate coverage at RBS, who said that problems at RBS stemmed primarily from "insufficient restraint" in the growth of the balance sheet and risk. He told delegates that the traditional areas of treasury expertise such as risk management and cash were now getting top billing in the decision hierarchy.

And treasurers were already having a good crisis. This was the year when treasurers were turning to corporate bonds to ease their funding woes while treasury management policies were being reassessed and tested for their robustness. Amid the gloom an ACT survey found treasurers were prepared.

APRIL 2009: BEYOND THE CONFERENCE HALL The first day of the conference, 22 April, was a late, late Budget Day. Chancellor Alistair Darling revealed that the credit crunch would lead to the largest budget deficit in UK financial history of £175bn, with total government debt set to double to £1 trillion by 2014.

2010 Back in Manchester, just over a week before the May general election, Richard Lambert, director general of the CBI, was dishing out the advice to whoever won at the ballot box. As well as having to deal with the ongoing banking reform, he suggested that the other big challenge was "keeping the lights on". Concern was raised over the "great reregulation that was going on", with fears of an overzealous package that would constrain lending to the real economy.

Pierre-Yves Gerbeau, best known for his time as chief executive of the Millennium Dome, told the audience that companies needed to be chameleon-like. PY, who claimed to be the most popular Frenchman in the UK, said employees should be committed but should also be allowed to boo management when it went wrong.

APRIL 2010: BEYOND THE CONFERENCE HALL For a week, ash covered large areas of northern Europe when an Icelandic volcano erupted. About 20 countries closed their airspace due to the activities of Eyjafjallajökull. The result? The greatest disruption to air traffic since World War II.

2011 Twelve months ago and the ACTAC bandwagon rolled down the East Lancs Road to Liverpool. Tesco made another high-profile appearance at the conference as Scouser Terry Leahy, the company's former CEO, said businesses should trust their customers to tell the truth and treat competitors as "the best consultant you will ever have". With the gloom of the financial crisis hanging ash-cloud-like over the Mersey, former banker and government minister Mervyn Davies, who had been made Lord Davies of Abersoch in 2009, said few lessons had been learnt from the financial crisis and that levels of pay in investment banking were higher than they had been three years before. Andrew Shilston, FD at Rolls-Royce, added to the mood by suggesting banks had gone back to wanting to lend only to those who didn't need the cash.

The cloud was lifted by a fabulous gala dinner at Liverpool Cathedral, hosted by ACT member and ethical adviser, Justin Welby. No sooner had the treasurer-turned-cleric hosted the event than he was promoted to Bishop of Durham, becoming one of the most senior clerics in the country. Perhaps under his influence, treasurers at the conference said their companies had the right approach to ethics.

Trying to raise the fog of doubt even further, delegates were urged to seek growth through exporting. Conference chairman Peter Matza, then head of publishing at the ACT and now engagement director, noted: "The whole conference showed that while there are major challenges, there is a depth of knowledge and experience that will stand the ACT and its members and supporters in very good stead."

And now for ACTAC Liverpool 2012…

APRIL 2011: BEYOND THE CONFERENCE HALL
Chancellor George Osborne warned that the UK risked a debt crisis like those seen in Greece, Ireland and Portugal if it failed to cut a record peacetime deficit. At the same time the EU agreed a bail-out for Portugal. Still, despite all the bad news, the conference feelgood factor was surely still around from William and Kate's wedding 10 days earlier.

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