

Setting the standard

From corporate governance to IAS 39, The Treasurers' Conference gave everyone present plenty to think about and question, as well as providing valuable tips on issues from managing tax to the Financial Services Action Plan.

The role of corporate governance and the adoption of International Accounting Standards in controlling business and operational risks came top of the agenda at The Treasurers' Conference at Celtic Manor in Newport last month with banks and corporate treasurers debating new developments and issues of concern in both arenas.

One message, nevertheless, prevailed – despite the hard work and process and systems changes required, corporate treasurers must follow and adopt the new requirements as soon as they can to ensure 'best practice'.

The debate started on day one with Tricia O'Malley of the International Accounting Standards Board (IASB) detailing the history behind the financial instruments standards – IAS 32 and 39. "The topics covered in both IAS 32 and IAS 39 have always been very wide-ranging... People forget that IAS 39 is an enormous standard. In the US, equivalent standards on financial instruments were implemented one at a time over a much longer period of time."

Ms O'Malley also announced the IASB is publishing a further Exposure Draft at the start of April, which will limit use of the Fair Value Option to certain situation, and is also publishing amendments to IAS 39 dealing with portfolio hedges of interest rate risk.

Ice-breaking start

This year's conference got off to a flying start with Justin Urquhart Stewart, Marketing Director of Seven Investment Management (pictured right), opening the 'Ice-breaker' buffet and drinks, with a paper on 'the market's financial health'. The informal event was geared at providing delegates with an opportunity to meet colleagues and peers, and quickly provided an excellent setting for networking.

Conference a major success

There was a record attendance at the first-ever Treasurers' Conference at Celtic Manor in Newport, which was organised by the Association of Corporate Treasurers, and sponsored by Deutsche Bank, HSBC and The Royal Bank of Scotland among other leading industry suppliers. Forty one per cent of the attendees were members of the corporate community and 45% banking representatives, all of whom enjoyed what proved to be a very interesting and entertaining conference. The quality of the speakers and topicality of the papers, which ranged from 'Living with IAS 39' to 'Treasury technology and the internet' and 'Managing banking relationships' appealed to a varied audience. Meanwhile, the 1,400 acre Celtic Manor Resort in Newport, which is renowned for its golf courses – exemplified by its selection for the 2010 Ryder Cup – also proved a distinguished venue.



Convergence with UK GAAP

Mary Keegan (pictured left) then took the debate forward by discussing the Accounting Standards Board's (ASB's) aims to work with the IASB to ensure 'good-quality' standards that are ready in time for implementation as of 2005.

She also chose the event to announce the timetable and plan for convergence of UK GAAP and IFRS – the migration of UK accounting standards to their IFRS equivalents – in a move designed to simplify the burden of compliance with IFRS for UK companies. The standards, which will apply to UK companies (other than listed groups which must adopt IFRS) as of 2005/2006, include FRS 17 on pensions, IFRS 2 on share-based payment, IAS 32 on financial instruments: disclosure and presentation (which replaces FRS 4 and 13), IAS 10 on post-balance sheet events, IAS 24 on related party disclosures, and – for listed companies – IAS 39 (excluding derecognition) and IAS 33 on earnings-per-share.

This news of UK GAAP's convergence with IFRS was taken further only days after the conference with the publication of



a Discussion Paper, entitled: 'UK Accounting Standards: A Strategy for Convergence'.

"The Discussion Paper sets out, in a structured way, proposals for converging UK accounting standards with IFRS. We aim to do this in a measured way," said Ms Keegan. "New standards will be required to keep UK practice in line with that used in other jurisdictions. The hurdle for a company choosing to adopt IFRS at a later date would be greater if standards did not keep up with changes to IFRS in the interim."

Turning back to the International Accounting Standards, Ms Keegan pointed out that there should be no national interpretation of the standards, although the ASB would consider such issues and refer them (with suggested solutions) to the IASB. Already, 13 standards have been EU adopted and 15 have been issued by the IASB and are waiting EU adoption, leaving six for 2005 awaiting IASB completion. "The standards must be finalised by the end of March to ensure they are ready for implementation before the end of the year," she said. "We are assuming that everything the IASB does before the end of March will be adopted."

Ms Keegan also outlined the key actions that corporates must take in order to ensure successful implementation of the new standards. "You must read the standards and ensure that everyone in your team reads them too," she said. "You must also focus on the changes relevant to you; the systems and personnel implications; changes to group accounting manuals and education for the board, the audit committee and the investment/analyst community."



The first day of conference papers came to a close with a series of six concurrent roundtable discussions, each of which focused on a different subject and was facilitated on one of a number of topical issues that ranged from tax in relation to cash management to achieving a break from treasury, life as an independent consultant and the outlook for the debt and equity markets.




Wide-ranging activities

More than 60 keen golfers took part in the pre-conference Golf Day at Celtic Manor, sponsored by National Australia Bank, which quickly proved to be a very valuable and successful addition to the programme.

The event took place on nine holes at the Roman Road Golf Course and saw golfers of all abilities participate in the four-person scramble format.

All the teams played nine holes, after which prizes were awarded to the three winning sides. The winner claimed a Big Bertha Graphite Fairway Wood Driver and Ping Putter and one night's accommodation for two people at the Celtic Manor coupled with a free a round of golf.

The winners were: David O'Meara, Manager, Client Development of National Australia Bank; Tony Chitty, Head of Treasury UK, AugustaWestland; Julia Maddock, Senior Sales Consultant, Richmond Software; and Joe Nicholson, Managing Director of Anvil Software. They are pictured with other participants below.



Corporate strategies

Interestingly, the papers on transition to IFRS had been preceded by a discussion on how IAS 32/39 would impact corporates' treasury strategies.

Here, Georgette Bailey, Director, Corporate Structuring, Deutsche Bank, expressed corporates' concerns that IAS

39 will result in the abandonment of certain commercially viable hedging strategies, as well as their unease over the tight timeframe allowed for implementation. "Some companies will only enter derivative transactions when they know they will qualify for hedge accounting, while others are simply not going to attempt to achieve hedge accounting. Most companies are in the middle – and will only use hedge accounting where it makes sense. They are not dismissing it altogether."



Treasured memories

As The Treasurers' Conference was designed by treasurers for treasurers, the ACT wanted to find out just what you thought of the presentations made, subjects covered, hospitality and, of course, the venue. Here, two corporate treasurers give their feedback on the event.



*Alan Dick,
Group Treasurer,
Scottish & Newcastle plc*

Coming from Scotland, and being used to Glasgow Celtic, I was pleasantly surprised that Celtic Manor had a few parallels. Both are top of the league and are surrounded by lots of green!

Travel to the venue was by plane, trains, automobile and bus but an enterprising treasurer from Glasgow managed to get to Cardiff for £4 – although he spoilt this by paying 2000% more for the taxi!

On the Monday evening, I was fortunate to have a very relaxed dinner with John Kasperek from RBS in the hotel restaurant – I started to feel the visit was worth it for that alone!

The aim of the conference is to give people an update on key areas in the treasury field and also to mix with peers and give those networking skills a chance to shine. The range of papers certainly covered a lot of the 'hot' topics, and it was interesting to see there was a lot of emphasis on IAS 32 and 39 and the EU adoption of these standards. The message is don't ignore them! Networking (or some may call it drinking) opportunities were abundant, and using the exhibition hall as the venue for lunches and breaks was an excellent idea as it got people involved with the exhibitors.

The Gala Dinner on the Tuesday night was an excellent affair with a Welsh male voice choir providing entertainment and the draw for the smart car, raffled by Scottish Widows, providing all the excitement. To the surprise of the entire audience, the car was won by someone from a bank and spoilt my illusion that the draw would be fixed in favour of a corporate (with a Scottish corporate being the best bet!). After dinner, networking was long and involved and meant a fairly subdued day on the Wednesday.

Overall the conference was a success from my perspective. My only hope is that my suggestion of a venue in Scotland next year will be confirmed by the ACT!



*Tom Greene,
Assistant Group Treasurer,
Smith & Nephew*

What a great conference – a topical and interesting programme, stimulating speakers, a good location, comfortable accommodation and very enjoyable company.

After driving over the Severn Bridge, and paying £4.60 for the privilege of entering Wales, the Celtic Manor Hotel looms up in front of you looking very imposing on a hilltop. I was impressed by the hotel from my room on the 10th floor and a view across the estuary to the excellent health club and conference facilities.

The conference opened with a presentation from Sir Andrew Large on 'puzzles in today's economy', which gave me a useful insight into his thinking on how the factors driving the UK economy will pan out. I came away from that session with a sense of cautious optimism. This was reinforced by Jeremy Peat, Group Chief Economist at RBS, who gave an economic overview of the global economy later in the morning. This was delivered in such a lively and jovial manner that he kept our attention throughout his thoughtful presentation.

IAS is a major issue for me and is taking up a lot of my time at work at the moment. It came up time and again throughout the conference, mainly in the context of IAS 39 and the divided views about the quality of this standard. I found the various presentations and discussions on this topic very helpful. It was also very comforting to know that many treasuries are struggling with issues similar to ours.

The Gala Dinner in the evening was enjoyable with superb entertainment provided by the Cardiff Arms Park male voice choir. I was, though, disappointed not to win the smart car in the raffle given my wife's parallel parking abilities!

Next morning I found the session on EU financial regulations useful. It brought home to me the importance of keeping up-to-date with what is going on in Brussels. It is so easy to switch off and think it is yet more legislation from Europe, but, as we have learned with IAS 39, we can be caught out and lose the opportunity for our views to be heard in time to have an impact.

All in all it was a great opportunity to catch up with fellow treasurers, hear useful presentations and meet exhibitors. I look forward to attending the conference again next year.

She also pointed out that corporates may seek to diminish any investor concerns about profit and loss account volatility, caused by the adoption of IAS 39, by educating analysts and investors in the standards' impact on their hedging strategies.

However, Timo Ihamuotila, Group Treasurer at Nokia, stood firm by his view that corporates will change their risk management approach to meet IAS 39. "The extent of change to risk management policies will depend on the treasury system you are using and how much you rely on derivatives and the macro-hedging approach," he said, pointing out that Nokia, having reported its accounts in line with IAS since 1987, and IAS 39 since 2001, has completely changed its hedging processes from laying off the net FX position to laying off gross position, and abandoning the use of internal FX option contracts (except for tender hedging). "It has certainly had an effect on our risk management policies and, after some initial headaches, this has been for the better," he said.

Sebastian di Paola, Partner, PricewaterhouseCoopers, added that the principles behind IAS 39 are aligned with corporate treasury best practice. Significant control and risk management benefits will be realised with the discipline of 'fair valuing' derivatives, and the requirement for sensible, well-documented policies and processes.

Treasurers must participate in corporate governance

The importance of adopting global accounting standards to ensure effective corporate governance was emphasised on day two of the conference.

Peter Wyman, Head of Professional Affairs at PricewaterhouseCoopers, described the new standards as part of a necessary, wider governance actions plan that also includes the adoption of auditing models.

Moreover, he emphasised that, in light of the recent corporate scandals, treasurers have an increasingly important role to play, alongside independent directors and auditors, to ensure high standards of corporate governance. "The reason why corporate scandals like Enron or Parmalat could not happen in the UK is because the business culture in this country is very different," he said. "But we should not be complacent and need to ask ourselves questions all the time.

"The extent of the activities that come under the treasury function means that there is a real need for us to all to learn lessons and make sure that events such as Enron and Parmalat do not happen again.

"Treasurers and others may be liable if auditors are misled," he continued. "Everyone in the supply chain should recognise their wider responsibilities."

And Jon Symonds, Chief Financial Officer at AstraZeneca and Chairman of the Hundred Group of Finance Directors, urged companies to be proactive in their attainment of good



A networking occasion

Further networking opportunities were afforded at the end of the first full day of the conference with a cocktail reception, sponsored by Fitch Ratings. This was followed by the ACT's Gala Buffet, sponsored by Deutsche Bank, HSBC and The Royal Bank of Scotland. Entertainment at the event was provided by the Cardiff Arms Park Male Choir.

corporate governance and adoption of the new standards... or else "regress" in terms of how they manage their businesses.

Stressing the importance of striking a good balance between an effective business strategy and minimising risks, he pointed out that although many large to medium-sized organisations are "struggling with the burdens of corporate governance", this should be a "fundamental" part of the way they operate.

"It is forcing us down a path that has much more detail to it and more documentation associated with it," he said. "The International Accounting Standards are an important part of improving the credibility of companies operating in the capital markets."

He added that AstraZeneca itself has spent a significant amount of time this year adapting its processes to meet the new demands.

A plethora of treasury issues

Other topics discussed at The Treasurers' Conference ranged from the latest developments in treasury technology to innovations in global cash management, risk management and how to handle the global tax burden.

On the first day, a panel session provided a valuable insight into the rationale for issuing convertibles and the consequences of doing so. This revealed that the market has developed markedly over the last five years, as has market efficiency. On the last day of the conference, delegates also got the chance to find out more about the Financial Services Action Plan (FSAP) which contains 42 different measures, many of which will impact treasurers. "Implementation and enforcement will be the next phase," said David Wright, Director, Financial Markets at the European Commission, pointing out that it is now moving towards final approval, with the Prospectus Directive, which allows a prospectus cleared for use in one country to be used in another, and the Market Abuse Directive. The latter extends the criteria of information classified as price sensitive and, consequently, the number of people listed as insiders with access to such information.

A smart win

Delegates at the conference also had a chance to test their luck by entering a free prize draw to win a smart car. Sponsored by Scottish Widows, the draw attracted huge participation as everyone vied for a chance to drive home in the compact City car. The winner – Reyer Kooy, Vice President of Institutional Equity at JPMorgan Fleming (left) – was announced at the Gala Dinner on Tuesday evening. He received his prize from Scottish Widows' Andrew Ashton.

