

MANAGING CORPORATE CAPITAL

The Association's Autumn Paper for 2001 was given at the Law Society on 1 November. The speaker was Bill Winters, the Global Co-Head of Credit and Rate Markets with JPMorgan.

Papers are presented to the Association, usually twice a year, by leading organisations, on subjects that are close to them. The presentation is often given by a senior member of the organisation, but may sometimes be given by a leading figure not directly related to them. These papers are open to Associates, Members and Fellows, and tickets are distributed free on a first come first served basis. We realise that not all members can attend these events, but they are usually topical, always worthwhile, and stimulate discussion and debate on leading treasury issues.

The subject of the presentation was Managing Corporate Capital, and the Association was treated with a very thought-provoking paper, that went well beyond the usual day-to-day approach.

Mr Winters said that his intention was to present a framework for corporate capital planning, and he defined capital, as "the ability to endure expected and unexpected shocks without needing to compromise the core business strategy". He emphasised the need to identify the various sources of capital, and the importance of a proper funding strategy. The central part of the presentation concentrated on how to determine the optimal capital structure, and the tools that are available to the corporate treasurer. He explained that capital strategy drives the optimal funding strategy, and that available tools include a combination of market indicators and a clear understanding of the forces that are driving the cost of debt.

Two forward indicators are the Liquidity and Credit Premia Index, which is an overall measure of global risk aversion, and equity prices that can offer an early insight into future debt prices. Another tool is the analysis of corporate spreads over risk-free government debt yields. These include a liquidity premium and a credit premium which vary between different securities, and over time.

And where did Bill Winters see markets at the beginning of November? Whilst investors were hoping for an early recovery from a global recession, he suggested that risk was biased towards a delay in that recovery. He expected that interest rates were still on the way down, and thus recommended that borrowing should be kept short term, swapping into dollar and euro fixed rates in early 2002, and longer term dollar and euro rates in the second quarter of 2002 after credit spreads contract. As far as sterling was concerned, he was inclined to lock in longer-term funding immediately, as EMU speculation is set to steepen the yield curve.

This presentation was in-depth corporate finance with which treasurers need to keep up to date. With new instruments being introduced all the time, treasurers need to understand all the elements associated with those risks. This again emphasises the importance of the ACT's education process, which provides treasurers with all of the skills to understand those risks. It was an extremely interesting and challenging presentation, and the Association appreciated the support of both Bill Winters and JPMorgan. **BRIAN WELCH**

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