ATTENTION: UPHEAVAL AHEAD

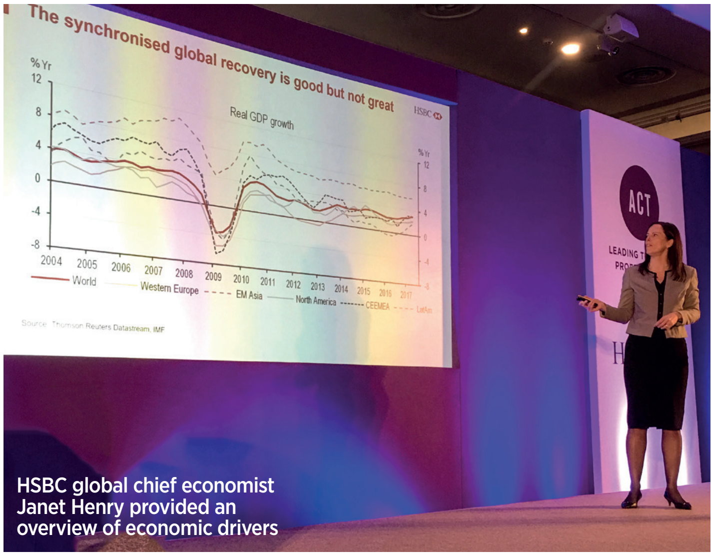
TREASURERS ATTENDING NOVEMBER'S ACT FORUM HEARD ABOUT REGULATORY CHANGE, ECONOMIC HEADWINDS AND RELATIONSHIP MANAGEMENT. MICHELLE PERRY REPORTS

Exactly a year on since President Trump won the 2016 US presidential election, and Patrick Nolan, vice chair of global banking at HSBC, opened the fourth annual ACT Treasury Forum – Where treasury minds meet – in November with a clear prediction: "We are at the start of some very challenging times," he said.

In her economic and political update, Janet Henry, global chief economist at HSBC, pointed out that, while Trump's presidency has yet to achieve meaningful legislative impact, the global economy meanwhile has outperformed expectations, with most regions growing and gaining momentum relative to expectations. Europe, in particular, has surpassed all predictions. "We expect this expansion to continue at around this growth rate," Henry said.

Emerging world markets will also get a lift in 2018, Henry said. Over the past year, markets have continued to undershoot interest rate expectations, so there is a huge hunt for yield on the premise that central banks will keep monetary policy very loose.

Despite political and economic instability in some emerging markets, order book sizes for bond issues for these kinds of territories are significant, on the back of the hunt for higher-yielding investment opportunities. However, Henry warned that we have seen this kind of behaviour in the run-up to financial excesses of the past. "The share of covenant-lite loans is now back where it was in 2007," she said.



HSBC global chief economist Janet Henry provided an overview of economic drivers

Despite central banks' efforts to avert deflation through unconventional policies such as quantitative easing, their task is now getting much harder. Until now, policy has focused on trying to meet the 2% inflation target, but now focus is increasingly turning to financial stability concerns as housing bubbles are beginning to emerge in some countries, Henry said. "History has shown us that soft landings are very, very rare. It's unusual to have a tightening cycle that isn't eventually followed by a recession," she said.

Current policy options for governments to address the polarisation of labour incomes include a robot tax, job guarantees, minimum wage increases, universal basic income, labour market regulations, training and education, protectionism and immigration.

"Global expansion continues, but the risk of a policy error by central banks is rising and they have been overburdened. They can't address the income and inequality imbalances. The government will have to step in there," Henry said.

Libor

Timothy J Bowler, the new president of ICE Benchmark Administration (IBA), a subsidiary of Intercontinental Exchange Inc, gave an update on the Libor benchmark, which has been administered by IBA since 2014. He set out the background to Libor and the drive for its reform, its current status and IBA's direction for Libor in the future.

Bowler noted that the manipulation of Libor came about in large part due to governance failures. "We are in a very different place to a few years ago," he said, going on to describe the new governance structure and processes for Libor that IBA has implemented.

Bowler specifically referred to the establishment of the independent Libor oversight committee, with broad user and market representation, as well as to IBA's new IT systems and surveillance processes, which are designed to ensure the integrity of the benchmark determination process.

In August, Andrew Bailey, chief executive of the Financial Conduct Authority (FCA), said that the FCA would no longer seek to sustain the benchmark through its influence or legal powers beyond 2021. However, he noted that the FCA was seeking the panel banks' agreement to sustain Libor for the intervening period (which has since been obtained).

Bowler welcomed this message, as it brought some certainty in the short term while IBA continues its work to transform Libor, which many market participants would like to continue with given an enhanced framework and methodology.

He also noted that IBA is working on this right now, having already published a roadmap for Libor, "with the aim of delivering what the market wants, which

Timothy J Bowler, IBA president, gave an update on Libor

includes a rate anchored in transaction data". Bowler said that IBA has designed a waterfall for Libor submissions that reflects the changes in banks' funding models since the 2008 crisis and should anchor Libor in transactions to the greatest extent possible.

"We believe Libor can continue well beyond 2021," Bowler said, noting that "Libor is better today than it ever has been". He stated that IBA is fully committed to working with regulators and the marketplace on the benchmark's evolution and "will work with all stakeholders helping establish new reference rates while remaining focused on its core responsibility of publishing Libor every day".

Cash is still king

Cash management provided a popular and lively topic of debate at the forum, with most delegates who attended the breakout session saying working capital was currently a top priority. Delegates were looking for advice and debate on issues such as managing stock, harmonising group debtor management and cash pooling.

Fiona Crisp, head of treasury risk, treasury risk management department at Huawei and immediate past president of the ACT, said: "When the crisis hits, the working capital process will take a lot longer. How quickly can you turn assets into cash? Not many treasurers have daily visibility of cash. This will matter in a crisis. Push your CFO to have intraday liquidity."

Crisp recommended coming up with stress scenarios in working capital because debtors will increase, as will the time it takes to pay during a downturn. She also suggested securing a credit line for the future.

Some delegates wanted to understand how best to store buffer stock. The panel – also made up of Nick Powell, global head of commercialisation at HSBC, and Emre Degirmenci, group treasurer at commodities broker Marex Spectron – suggested putting in place a reward mechanism for stock management, or reviewing any existing schemes to check they align with the business's goals. One delegate said his boss, an entrepreneur, paid salesmen on cash received rather than sales, a move the panel backed.

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The brave new world of FX risk management session – hosted by Rob Clark, group tax and treasury director, TT Electronics; Yann Umbricht, PwC partner in its treasury and commodity trading group; and Holger Zeuner, strategic solutions group, HSBC – also drew plenty of debate from delegates on unexpected FX impacts on accounts, the growth of treasury management systems and forecasting.

In terms of what to watch out for in regulation, the forum had a lot to cover. Topics of discussion included MiFID, Basel III, ring-fencing, IFRS 9, *Hedge accounting* and IFRS 16, *Lease accounting* and, not least, Brexit.

Relationships

Effective bank relationship management was also a highlight at this year's event. Andrew Rowlands, deputy group treasury director at Reckitt Benckiser, said it was vital to build a mutually beneficial relationship with banks in a structured approach, by understanding their expertise, skills and needs in order to provide value.

"There is a healthy tension there, but we have a good relationship," Rowlands said of his banking relationships.

Panel member Winny Li, executive director, treasury and head, global treasury operations at PPD, a global contract research company, said her firm had 10 core banks and around 300 bank accounts – cut from 600 in 2011 – because of its global acquisition needs.

Li questioned panel member John-Paul Way, MD of UK Banking at HSBC, about the lengthy time it has taken to open new bank accounts in recent years. Way said that banks such as HSBC were working hard to coordinate the KYC process using global standards, which would speed up the process, but increased and varied KYC regulations across geographies continue to pose a challenge.

"The costs are significant, so some business isn't economic for us any more," Way said. Regulatory pressures are not necessarily expected to reduce either in the near term. He added that the new ring-fencing requirements in the UK could result in "funding-cost implications that may feed through to corporate clients".

The key message from the event was that treasurers should prioritise banking relationship management in an open and honest way to best manage each other's expectations.

As Sarah Boyce, associate policy and technical director for the ACT, said: "It's been an interesting year and the next one will be no less interesting."

Michelle Perry is a freelance finance and business journalist