# Ask the experts:

# Welcome to the new world

What will be the key trends that will keep treasury departments busy in 2008?

**Henryk Wuppermann, Head of Capital Markets, Bayer**

From a funding perspective, 2007 was an interesting year. In the first half, treasurers had the opportunity to refinance debt at extraordinarily low levels and then wait for the second half – when they watched AA-rated companies being forced to offer premiums over their existing spread levels that were higher than the entire spreads which the "early birds" had to pay when they took out their financing in the first half of the year.

But what will 2008 bring in this respect? I believe everyone has now understood that there is no value in looking back and comparing today's spread levels with the ones from one year ago. This is gone – it was a pleasant situation, but it no longer exists.

The main question however is whether liquidity will return to the market. So far only well-rated companies have been able to issue bonds, and there seems to be quite a backlog of BBB-rated companies waiting for the market to finally open up. If it does and these companies issue their bonds – at what pricing levels will this happen? According to bankers, trading in existing bonds seems to have nearly stopped. What value does a credit curve offer when trading is thin? A significant premium to their existing credit default swap curve (which seems to offer more liquidity for investors) may result in a further repricing of similar rated debt. This would also impact the future cost of funds of those who are currently able to watch at the sidelines of the bond or loan market.

Talking about bank loans: this year will bring a very good test for bank relationships. Which bank will continue to support the growth of your business with large underwritings even in times when liquidity is expensive and scarce (and even more so for banks)?

In funding terms, most of 2006 and the first half of 2007 was a lot of fun but not a big challenge. 2008 will be a lot more demanding. And a great opportunity for treasurers to add value.

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**Alessandro Canta**
**Head of Treasury & Capital Markets, ENEL**

Looking back on 2007 it has been a very tough but a very interesting year. My company, the Italian utility ENEL, launched a public tender offer for the acquisition of Endesa and we, as the finance department, were asked to ensure the acquisition finance raising a €35bn facility in early April.

Immediately afterwards we started the refinancing programme through the issuance in June of a multi-tranche bond in euro and sterling for a counter value of €5bn. Immediately after the summer, in a very difficult environment due to the sub-prime crisis, we continued our plan with the issuance of $3.5bn in the US and at the end of the year we are on track for closing in excess of €2bn deal in the Italian bond market. But while ENEL has managed to finance around €10bn in the capital markets it is fair to say that the market difficulties will oblige all companies to take much more care of their liquidity.

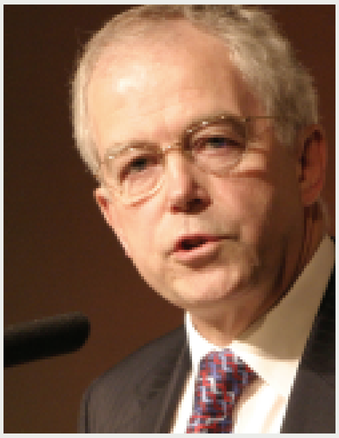
Up to the middle of 2007 every company was in a position to raise money really easily. Now the banking system is experiencing difficulties so every issuer is now requested to pay a wider range of spreads. But it goes deeper than just spreads, even companies in a good position must be careful over the issue of liquidity. The banking system will not be automatically available for raising money so that organisations that do not have enough secured liquidity (such as cash or committed credit lines), may have some problems.

Treasurers of corporates that do want or need to raise money are going to have to be very smart.

It is clear that the markets are going to be much more volatile than we are used to seeing. The big window of opportunity that used to exist for raising money is now shut. In its place there is a little window of opportunity and treasurers are going to have to be smart to recognise when that window is open. The good rated issuers should still find it possible to raise finance but the market will not be consistently open during all parts of the year.

The two main themes of the need for real care and skill in liquidity management and the open and shut nature of the markets is underlined by what we have seen happening in the commercial paper market. When the credit difficulties first emerged commercial paper investors were the first to withdraw, concerned over the creditworthiness of some of the players in the commercial paper market. Investors just stopped investing.

Given all of the difficulties that I envisage in the capital markets in 2008 maybe this is a good time, like others in our sector (such as Iberdrola in Spain), to continue to perform to a solid and reliable plan to ensure that the acquisition/mergers we have down are successfully completed also from a financing prospective.



**Sir David Tweedie, Chairman, International Accounting Standards Board (IASB)**

2008 is going to be another big year for international financial reporting standards (IFRS). In many ways last year belonged to Asia with China using IFRS for the first time, and India, Korea and Japan all saying that they were going to come on board. That left the US as the only major economy that wasn't using or about to use IFRS. Now 2008 promises to be the year of the US. In many ways the Securities and Exchange Commission (SEC) in the US surprised us all by announcing at the end of last year it was removing the need to reconcile between IFRS and US generally accepted accounting principles (GAAP) immediately.

Already we have seen round tables held in the US on the SEC's concepts release to see whether US companies should be allowed to file using IFRS. The feedback was positive with some even advocating that the SEC should set a date for the changeover from US GAAP. That is something the SEC is going to have to think about but there may well be a proposal later in the year and we will have to see if that sets a date.

There is a fair chance the SEC will give US companies the option to use IFRS. So it will be interesting to see what happens in the US this year. Global accounting standards are coming but if the US sets a date then we will know the date that global accounting standards will arrive.

In many ways, the European Union can lay claim to starting this process. And a survey conducted by the Institute of Chartered Accountants in England & Wales (ICAEW) two years on from the decision to require all EU-listed companies to adopt IFRS shows how successful the move has been.

There is still work to do. The IASB is in ongoing discussions on the ending of the EU carve-out on financial instruments.

As far as we can see very few companies use it. In discussion with European bankers it is apparent that some feel there is some form of hedging they cannot do under IAS 39 because their auditors will not agree, but which our board members think can be done under the present standard, partly because they know other banks that do it. Maybe we need to clarify some of the wording in the present standard but we don't think this is insuperable and by the end of the year we hope the carve-out will not be necessary. Of course we won't do something that is plain wrong but we are more than prepared to deal with ambiguity.

This is going to be another big year for the IASB with the promised publications of several discussion papers.

We want as many stakeholders as possible to participate with us. Over the next few months we are going to have to decide where we go with IAS 39. We keep hearing the problem with the standard is that it is horribly complicated. Why is it horribly complicated? Because people want exceptions to the basic principles. We've got four different ways of measuring financial instruments, two different ways of hedging, partial hedging effectiveness testing. The question for people like treasurers is can we get rid of all that?