The Treasurers' Conference 2005

The Treasurers' Conference 2005 concentrated on the key topics for all those involved with treasury management, including financial risk management and corporate restructurings and the issues that treasurers need to be most aware of.

Keynote speakers included Sir David Tweedie looking at the development of International Financial Reporting Standards and David Reid talking about the strategy for growth at Tesco.

The conference also had its lighter moments.

Gareth Chilcott: Gala Dinner speaker

Before the conference started treasurers found their way onto one of The Celtic Manor Resort's golf courses for a 9-hole fun scramble tournament; financial journalist Barry Riley updated the classic business book *The Money Game;* while at the Gala Dinner, Gareth Chilcott, the former England and British Lions player talked about rugby without once mentioning Wales' recent Grand Slam (well done Gareth).

Plus of course there were the exhibition stands, the bars and treasurers networking. ■

Financial crisis provoked reform

The 1997 Asian financial crisis provoked a massive crisis of confidence in the standard of international financial reporting, according to Sir David Tweedie, the chairman of the International Accounting Standards Board (IASB). As a result of the crisis the quest for a single set of global standards became more urgent.

Sir David said: "This is not about arcane methods of bookkeeping. This is about growth, trade and employment. It is about the need for transparency to encourage investment and reducing the cost of capital."

In the mid 1990s, the International Accounting Standards Committee (IASC) – IASB's predecessor body – agreed an improvement project with the International Organizations of Securities Commissions (IOSCO). Of the 30 standards which were part of that process, 14 were heavily criticised and as a result the accounting profession and others decided it was necessary to boost the resources of the international accounting standard setter. Sir David said: "The IASC had five staff compared with the US Financial Accounting Standards Board (FASB) which had nearly 60."

The process was given added impetus when the European Union decide to adopt international accounting standards. "How do you have a single market if every different country has different accounting standards?" asked Sir David.

He told the audience that it was the IASB's intention to improve IAS 39 *Financial Instruments: Recognition and Measurement.* He said: "IAS 39 is rules based. There are principles in there but they are hard to find." Tweedie claimed that he could cut the standard down to 20 or 30 pages which would cover 80% of the possible scenarios that treasurers and others would come across. But if preparers and auditors want guidance on 95% of the possible scenarios on financial instruments then the page count would leap to hundreds of pages. If users want the shorter version then they will have to exercise more judgement and take more responsibility.

Sir David said that when he talked about revising the standard he meant starting from a blank sheet of paper. He invited treasurers to join the IASB in the process but said he wanted a radical rethink not complaints about individual paragraphs. He also wanted people to join in the process at the beginning, not complain about the result when the process was almost complete.

According to Sir David, international accounting standards stood on the brink of a major breakthrough. The agreement between the FASB and the IASB means that there is an opportunity that the need for reconciliation will end by late 2007 or early 2008. The standards are merging, said Sir David, purely on the basis of which board has the better standard. If neither standard is good enough the two boards are working on producing new, high quality standards. Sir David said; "International accounting standards are spreading globally, but if we blow the opportunity we have now, it will not arise again for another 20 years." ■

Sir David Tweedie: major breakthrough

Managing capital structures

Robert St.John of Royal Bank of Scotland posed a number of questions to the panel of treasurers from BAT, Shell and Centrica about their ideal capital structure and their specific drivers, their attitude to ratings, the possible conflict between shareholder and debtholder interests, the effect of pension fund regulatory changes and the extent to which they use derivatives and hybrid instruments to achieve their optimal capital structure. There was broad consensus in most of the responses.

In terms of ratings, the consensus seemed to be that ratings are important but the company should be flexible about its rating, looking to keep it within target range rather than at a specific level, but clearly communicating to the market the company's financial policies.

The panel was surprised at how big the gap was between the understanding of the shareholder and debtholder groups – although they seemed to have many of the same interests, the gap could be significant. Where the treasurer is a pension fund trustee, it is fascinating to see both sides of the issue.

Pensions fund regulations had not made a great difference to the corporates' attitudes, as these had already been factored in to their capital structure requirements, probably reflecting the rating agencies treatment of deficits in their ratio calculations.

When it came to the use of derivatives and hybrids, the corporates were unanimous in saying that they only use them for specific purposes – managing the interest risk surrounding debt issuance or switching the currency of debt proceeds for example.

When it was put to a vote of the audience the two main issues of concern were accounting issues (49%) and pensions issues (18%). ■

Ratings agencies openness praised

Long awaited transparency and increased communication in the ratings industry was last month praised by treasurers, but frustration remains over certain practices.

Jane Pilcher, Group Treasurer of Anglian Water, said: "There's a real move forward in dialogue and openness. It's good for agencies to share their ratings' methodologies." Fraser Campbell, Head of Group Treasury and Planning at O2, added: "Ratings are key and particularly now in our demerger. I think they are getting better in their transparency of how they look at us."

Chris Legge, Managing Director, industrial ratings group at rating agency Standard & Poor's hit back at criticism, saying: "We recognise the move toward transparency and we practise that vociferously". He added that he was undaunted with the current scrutiny from global securities regulators and dismissed allegations of "potential collusion between the ratings agencies".

Treasurers' frustrations however focused on the speed with which ratings agencies react to bad news by downgrading companies, but fail to respond to good news with the same swiftness.

Pilcher said: "In terms of moving companies back up it's different. There's got to be something big to happen before a rating goes up." Delegates also questioned agencies' fees and their lack of transparency in this area. Legge said: "We have different fee arrangements. We are a professional service and we have to pay our people."

Monica Klingberg Insoll, Jane Pilcher and Robert Williams

Treasurers also voiced dissatisfaction over unsolicited ratings because they could give a misleading impression to the market. Monica Klingberg Insoll, Head of European Industrials at Fitch, said that if her agency ever issued an unsolicited rating, it was always disclosed in the initial press release. Legge however said that S&P didn't issue unsolicited ratings.

Robert Williams, Group Treasurer of Allied Domecq, who chaired the session added that he'd like to see it clearly stated on every agency press release whether a rating was solicited or not. ■

Think again over Sarbanes-Oxley delist

Treasurers should think again before delisting from US stock exchanges if the reason is Sarbanes-Oxley Act, said Kevin Piccoli, Executive Vice President and Chief Auditor at the Bank of New York.

Piccoli said there was a great deal of pain involved in ensuring the correct controls were in place to comply with the US Act but there were also great benefits in focusing the mind on internal controls. But he said the process must be kept simple and standardised across the entire business. "Keep it simple; get the definitions the same around the world. It's critical internally but also for your [external] accountants," said Piccoli.

The IT department and external auditors should be consulted every step of the way to avoid hiccups at the end, he warned. "We underestimated this. We got into arguments with Ernst & Young [BNY auditors] about whether we needed to re-compute certain data," he said. Piccoli urged treasurers to challenge auditors because in the US there had been "very different interpretations from accountancy firms". ■

A momentous year in tax

Philip Gillett, Group Taxation Controller at ICI, and Emma Lubbock, Technical Committee Chairman of the ACT, and tax partner at PricewaterhouseCoopers, described the key elements in what had been a "momentous year".

The Inland Revenue has worked hard on International Financial Reporting Standards (IFRS) but it has not quite got it right and there are lots of unknowns but it is heading in the right direction.

The European Court of Justice (ECJ) had, for the first time, provided positive advice albeit through the Advocate General (AG), rather than the full court so far. In the Marks & Spencer case, the AG had said that the UK's current group relief scheme is illegal but if the UK legislation permitted overseas schemes, it would then be legal. Until now the destructive attitude of the ECJ to legislation, combined with confusion over how governments react to ECJ rulings, had created great uncertainly in the tax community.

The government's tax avoidance legislation is causing major concerns and "unacceptable uncertainties". For example, the first draft of the Tax Scheme Disclosure Rules had proved unworkable from a business perspective but the government's attitude had been one of telling business to "make it work" or we will come up with something worse (including making it retrospective). Other legislation, such as section 91(b) on preference share financing, was just bad legislation. Rules such as those on arbitrage were creating even more uncertainty by stating that across a broad range of transactions, the rules would only apply if the Inland Revenue said so. In some cases, in the absence of specific legislation, corporates could be faced with a potential tax rate of 140% instead of the anticipated 0%.

All this serves to undermine the competitiveness of UK corporates – the silos within the Inland Revenue mean it is unable to see the broader implications of its rules. It is vital for corporates to let the relevant authorities know their views – they should use bodies such as the ACT but should also do it directly, as the authorities often just do a number count. However, beware not to be seen to be all using the same wording or format – any mass mailings would be discounted. ■

Financing for the future

A changing landscape in financing opportunities for corporate treasurers is expected to materialise as the current cycle bottoms out, a panel of the UK's leading treasurers told delegates at the ACT's annual conference in May.

Treasurers' ability to obtain debt at competitive prices will not last but none of the panel predicted catastrophe in financing.

Gerry Bacon, Group Treasurer at mobile phone giant Vodafone, said: "It's horses for courses."

Antony Barnes, Group Treasurer of GUS, owner of credit reporting company Experian and high street chain Argos, highlighted hybrid debt transactions as one possible route treasurers could take.

"It's not a particularly mainstream funding approach but if you didn't want to stretch your credit rating, it might be one to pull out and dust down," Barnes said.

Panelists were positive about the current trend to develop closer banking relationships.

Neil Sorahan, Group Treasurer of low cost airline Ryanair, said: "There's something to be said about traditional relationships coming back into fashion. I think we can keep it simple with margins so low."

Kathleen McCoy, Assistant Group Treasurer, Shell, added: "We are inspired to know our bankers better than in the past to build up a long-term relationship. With current oil markets as they are, we haven't had bankers knocking on our door."

The treasurers hailed the current diversity in the funding market but cautioned treasurers to take care in avoiding the bonds market in favour of cheap debt from banks.

Sorahan, said: "Let the good time roll on, let's get the margins while they're there."

Bacon added: "I think the bond market will be quieter over the next two to three months. Will that affect the bond market? Possibly not, but then you only have to have some strange event happen and that could change everything. We live in a world of cycles."

He added that Europe will see a significant drop in the number of banks in the coming years.

"We have an oversupply of banks across Europe at present but in five years time I think that will change."

Barnes urged treasurers to spread their borrowing options.

"We have got three bonds out there. We aren't looking to refinance those yet. But to know we aren't solely reliant on the bond market is good news for us, as you don't know what's around the corner or if the banks come back to pinch you," Barnes said. ■

Pension trustees role under scrutiny

Treasurers need to ask themselves how they should be involved with their companies pension scheme, according to a specialist panel at the conference. David Pollard, a partner with the law firm Freshfields Bruckhaus Deringer, said many trustee boards have members who may have a conflict of interest, such as directors of the employers or union representatives.

With the increasing regulation of pensions, many treasurers are beginning to wonder whether they can continue to act both for the company and for the pension scheme. The idea of being both a treasurer and a trustee is being described as "an increasingly uncomfortable place to be."

It seems that there will be a greater role for professional trustees and advisers, especially if there is a gap left in the knowledge of a scheme's detailed financial knowledge and experience as professionals such as company treasurers find it increasingly difficult to remain as trustees.

Pollard said: "Trustees and employers should plan in advance their approach for when a conflict of interest arises." If conflict for senior officers of employers do arise then they need to check the terms of pension deed, they need to think how to deal with disclosure issues and they need to consider that there is a potential onus on conflicted trustees to show that they acted properly.

Pollard characterised the emerging pension regime as "a brave new world changed by stealth by regulators". The Pensions Regulator expects trustees to monitor its company in a similar way to banks. The regulator wants to ensure that when companies get into trouble, the pension scheme is not "the last creditor left". ■

Trust is the secret

A large measure of Tesco's success is down to trust, according to chairman David Reid. In the conference's opening session, Reid, FCT, examined strategy for growth at Tesco. Tesco's non-executive chairman said that £1,000 invested in Tesco's shares in 1980 is worth £150,000 today. And he said much of the company's success – it has gone from number three supermarket in Britain to number three in the world in just ten years – is down to the fact that Tesco "treats others as we would like to be treated."

Reid explained how Tesco had formulated and executed its growth strategy, he also looked at the criticism that his company has attracted by its spectacular growth.

Reid said Tesco has 10 million more visits to its store a week than a year ago, and he said the success was built on "growth through competition and growth through innovation". If a business can grow its reputation among customers, then it will grow its customers, if you grow customers you grow sales and then you grow profit.

David Reid: growth through competition

The supermarket now has access to 1.5 billion customers: it operates in 12 countries outside the UK and in five of those countries it is the market leader. It is working in China through a joint venture and has stores throughout Asia as well as Eastern Europe. One country where you can't shop in Tesco is in the US. When asked whether he would ever contemplate move into the US, Reid told the audience he was once given the advice: "Never get into a phone booth with a gorilla." A reference to the overwhelming presence in the US market of Wal-Mart.

Although much of Reid's address concentrated on the present strategy of Tesco, he did not ignore his roots at the company's finance director. Many years ago, Reid hired Tesco's first treasury professional. He said: "I told him that no-one would notice if we were an 1/8th off the pace [in terms of interest rates] but if he mislaid £50m, he would get fired and so would I. It may not be as sophisticated as some of today's risk management models that we employ but maybe it was equally effective." ■

Gloom sets over Europe

Corporate treasurers in Europe are set to face increasingly tough times in the coming years, as world growth slows and European integration remains uncertain.

Professor Norbert Walter, Chief Executive Officer of Deutsche Bank Research, urged treasurers to have their wits about them.

He pinpointed two clear risks that will have the greatest influence on Europe's future as an economic power – enlargement and the ratification of the EU constitution.

"We are in for very difficult times in Europe and there's no plan B if ratification doesn't happen," said Professor Norbert. One consequence, he said, would be a dip in the value of the Euro.

The structural set up of the European Union, he said, was holding back Europe in the growth stakes, compared to the potential of the US and Asia. This he put down to every EU leader ignoring the Lisbon agenda.

Norbert Walter: no plan B

"Most of Europe will see a decline, as it's not using its capacity to the full. Growth will prevail albeit at a low level," he said.

With the bonds market "endangered for now" he predicted that equity markets would benefit but which would profit remains unclear.

"European markets have benefited more in recent years", he said, but voiced concern that European policies could limit their future potential. ■

The ACT Golf Day

Over 70 golfers competed in glorious spring weather at the second Annual ACT Golf Tournament – sponsored once again by National Australia Bank. Playing conditions on the challenging Roman Road Course, home to the Celtic Manor Wales Open, were certainly up to par. Photos and details of the winning team can be found at www.treasurersconference.com/gallery2005golf.cfm

Dramatic change in turnaround market

Restructuring has changed dramatically in the last few years, according to John Talbot. He claimed that the old days have gone where the Bank of England would call in a market player it was concerned about, and over tea and biscuits express it displeasure – at which point the miscreant would fall back into line.

John Talbot: restructuring

Talbot of Kroll Talbot Hughes, illustrated to the conference the work he does by explaining his role as chief restructuring officer (CRO) at the advertising agency giant, Cordiant. The corporation had turnover of £0.5bn and debt of £0.25bn. When Talbot's firm became involved the directors had just negotiated a standstill. Previously the directors had been trying to negotiate a sale of the business but had not received bids at the level that they were interested in. The company had three major clients, one of which, had indicated it was considering withdrawing its business. If major clients left, so would staff. The restructuring had to be done quickly to stop that sort of haemorrhaging. The most likely exit was a trade sale. The two trade buyers were looking to buy the equity with a view to negotiating with the debt holders. One of the debt holders then emerged as a potential buyer. Talbot persuaded all the potential buyers that the sensible route was to buy the debt and then put a proposal to the shareholders. Through a process –which started with sealed bids – the restructuring was completed. Talbot said: "Once you have the debt you have the power."

According to Talbot, it is hard for anyone caught up in a restructuring to emerge "smelling of roses, there is always a search for scapegoats". However he added that "good treasurers do survive and play a valuable role in restructuring." ■

The ACT exhibition

The ACT would like to thank all the delegates, speakers, exhibitors and sponsors for making The Treasurers' Conference 2005 such a success.

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