AT THE ACT'S ANNUAL CONFERENCE IN APRIL, A HOST OF SPEAKERS OFFERED TREASURERS INCISIVE INSIGHTS INTO THE 'NEW NORMAL'. THE FOLLOWING PAGES REPRISE SOME OF THE BIGGEST ATTRACTIONS OF THE ACT'S KEY EVENT.

Clark: low returns for savers in the Nice decade triggered a demand for yield and led to the rise of financial engineering

Sticking plasters not enough

It is much more important to get to the core of the problems that have put the economy on the rack over the last 18 months than it is to find short-term solutions that are the equivalent of applying a sticking plaster. So said Alastair Clark, former executive director and adviser to the governor of the Bank of England.

Looking at the problems in the world economy under three headings – macro, the financial sector, and what the authorities did – Clark said that the process of diagnosing just what went so spectacularly wrong would take some time.

In terms of the macro economy, Mervyn King, governor of the Bank of England, coined the phrase "the Nice decade" to describe the years of non-inflationary consistent expansion that preceded the current turmoil. In fact, Nice conditions – annual growth of around 3% and low inflation – lasted 16 years, from 1992 until 2008.

But why did such conditions prevail in the first place? Was it wisdom and far-sighted handling of the economy by government and central bankers? Were there other factors? Or was it just luck?

Clark suggested that one factor was the convergence of ideas and policies by governments across the world, in particular the pursuit of low inflation. Another key factor in those years was the emergence of new suppliers to the world economy, particularly China, and to some extent India, supplying goods at a price that let many developed countries run their economies at a high level of demand without suffering inflation. In effect, because China was prepared to export at something close to a fixed price, developed countries could keep their interest rates low without risking inflation.

However, one effect of this was the accumulation of both government and consumer debt. Clark suggested there was "an undeclared coalition of interest between consumers, politicians, and hedge funds and banks". Politicians took the credit, consumers enjoyed higher standards of living, and financial institutions liked the idea of expanding their balance sheets. That coalition underlines the problems we have seen over the last couple of years. The inbalance in the global economy is most marked in saving behaviour, with China saving an astonishing 30-40% of its output. However, these inbalances don't occur solely through the actions of one party.

One consequence of the financial crisis has been a call for the better co-ordination of policy in different countries. Clark said that 20 years ago the IMF board had called for multinational surveillance but that the idea had faded away.

Although Clark said he didn't want to go into "bubble theology", he did note that Alan Greenspan, chairman of the Federal Reserve from 1987 to 2006, claimed that you couldn't stop bubbles, you just had to repair the damage after they burst, which might not really deal with the financial stability implications of asset price inflation. Clark also suggested that it might not be possible to use a single instrument – interest rates – to deal with two separate policy objectives: financial stability and inflation.

Turning to the financial markets, Clark said that one aspect of the Nice period was a low return for savers, which came as a shock to many and triggered a search for yield and the rise of financial engineering. Much of this engineering was based on "the good old-fashioned approach of leverage and gearing, slicing and dicing exposure to generate more attractive yields", with credit derivatives and derivatives generally used as a stock tool of the trade.

Clark said it had become a cliché of post-credit crunch analysis that derivatives were meant to transfer risk to those best able to bear it but in fact had transferred it to those least able to understand it (and bear it). What made such instruments all the more dangerous was that while in theory they were tradeable, they turned out to be here today and gone tomorrow. As instruments became more sophisticated and tailored to the preference of individual customers, so their liquidity dried up.

Clark also downplayed the idea that we had seen a period of new thinking, noting that credit risk transfer was no great innovation but similar to the guarantee in export credit guarantees.

"But what has focused the attention is the way the CDS [credit default swap] market went from nothing to $60 trillion before the roof fell in." In the process, the collapse undermined the overall quality of risk assessment. Clark was implicitly critical of the originate and distribute model as undermining the idea that the lender (the bank) had a continuing relationship with the borrower and so could monitor the way the loan was developing. This was still true in loan syndications which were reckoned to be too illiquid for the bank or lender to lay off the exposure.

Clark said that when he had talked to senior investment bankers, without exception they had all claimed they had risk management sorted and there was no need to worry. It proved an optimistic view of the exposures. The industry had been over-enamoured with mathematical models, but you can't model confidence.

He also raised the issue of short-termism, saying investors punished firms that diminished their short-term returns for longer-term gains. Short-termism ignited an incentive environment in which firms and individuals operated. Incentives urged individuals to expand the firm's balance sheet without due regard to risk.

And what of the role of the authorities in creating the crisis? Clark said that in retrospect it was clear that the rules had shown an excessive preoccupation with capital and that the regulatory structure had been fixated with organograms and boxes. He said the really important factor was whether it was possible for regulators to take pre-emptive action and intervene early even if there had been no breach of regulations up to that point, or have to wait until grounds for acting were beyond reasonable doubt, in which case any action would come far too late.

Clark eschewed any role for himself as a forecaster but he did say that the present prospects were more than usually uncertain in the face of circumstances that have not been seen for half a century. So much depended on the restoration of confidence but that was a difficult policy lever to bring into action.

In conclusion he suggested that there had been a huge transfer of indebtedness from the private to the public sector and that there were now three possible courses of action:

- The debt could be written off with much financial damage to the holder and much reputational damage to the issuer;
- It was possible to save our way out of the situation, but that would take a long time; or
- The debt could be diminished through inflation.

As he reflected on those difficult choices, Clark reminded the conference that central bankers are notorious for seeing the black cloud behind the silver lining.

The terrifying fall of finance

In an forthright, outspoken and entertaining address, Jon Moulton gave his personal view on the state we're in. A call for a return to a simpler approach was a recurring theme in the speech of the founder and managing partner of private equity company Alchemy.

He criticised the Basel II regulatory measure as "bonkers since the moment it was introduced" and "obviously counter-cyclical". With the introduction of multi-layered debt, Moulton said the financial market had become interlinked as never before but there was a limit to the ability of people to manage and regulate. Did those on the boards of larger banks, those who sat on audit committees, the auditors and regulators, really understand what was going on? The fact that the banks' losses now exceed all the profits they have made since World War II suggests not.

The trigger of the financial predicament was quite simple. In good economies a wall of structured debt instruments – "CLOs, CDOs, all those things which made your life tedious" – provided cheap debt in huge volume. People became rich from finding assets to take advantage of this financing. Even when the good assets ran out, people didn't stop, acquiring inferior assets at higher prices, Integrity declined and complexity burgeoned. That was the boom.

Eventually the poor assets, typified by sub-prime, could not generate enough income to pay the interest. That was the bust.

A number of factors contributed to the crisis, including bonuses and payments for failure. These should be a critical risk factor for the regulators, according to Moulton. There was no interest in anything other than the current deal, and it was no coincidence that bonuses should coincide with the bubble.

Moulton said we had ended up with a world of low predictability, and were engaged in a global financial experiment underpinned by novel ideas such as quantitative easing, which all added up to a historically untested recipe. He also attacked transparency in its current form, observing that hardly anyone understood the accounts of banks and mocked the idea of "unobservable profits". Disclosure works only if you understand it.

Moulton: Basel II regulation "bonkers"

Turning to the future, Moulton said more regulation was inevitable, including efforts to "regulate the incomprehensible". Banks would take years to regain "sensible" balance sheets. Recovery would take an equally long time and in the meantime we could look forward to a long downturn brightened only by lots of small gimmicks from government. He also predicted debt above 70% of GDP for the next 10 years, even assuming GDP returned to growth mode from 2010 onwards, accurate forecasting and no more surprises.

Moulton spiced his amusing if gloomy analysis with possible ways forward. For example, strong banks are essential, so perhaps the activities of banks need to be limited to that which is regulatable. He also suggested that capital levels should be hiked as the economy recovered, a clearer capital structure implemented, the regulatory hydra chopped back and the bail-out system overhauled. If the banking industry is in need of reform, then so is insurance. In the world of finance, change is afoot, and we may end up with a world that none of us could have imagined just a year or two back.

For more on Jon Moulton, see p40 of the May 2009 issue of The Treasurer

This is your captain speaking

While the politicians and central bankers try to steer a course for the whole economy out of the present difficulties, those who actually run businesses have to adjust to the new realities and manage as best they can. According to the creator of British Airways' no-frills Go airline, Barbara Cassani, now executive chairman at Jurys Inn, running an airline is one of the best groundings a boss can have in today's uncertain business climate.

Even in a good year, she said, an airline gives a return of just 5%-10% and the industry is beset by crisis, whether that's SARS, swine flu, wildly fluctuating oil prices, or merely a global recession. The big questions facing all businesses are how to recalibrate their plans for the new reality, how to manage teams and how to curtail costs without curtailing the customer experience.

Cassani gave short shrift to struggling bankers. "Boo-hoo," she said to the idea that they deserved sympathy. The 10 to 15 years of unimaginable good times, when everything bankers touched turned to gold, have gone, along with the "slushing liquidity".

As for the corporate sector, Cassani suggested now was the fun time of managing well and cleverly, a time for guts and determination in order to survive and then prosper. A rising tide lifts all the board, and some corporates (and their treasurers) enjoyed success due to unprecedented growth. Now the tide has gone out, some of the exposed beach is pretty whiffy.

Under the present conditions, the new normal, every aspect of the business has to be revisited. But she warned against the temptation of embarking immediately on cost-cutting campaigns: unless it's part of the business plan, focusing on costs leaves you in danger of missing the strategic shift required.

Cassani said that managers should be rethinking business on a grand scale and that every aspect of business had to be up for grabs. She said that this phase reminded her of the "hairy days" in a startup and for those who had spent most of their working lives in mature businesses this was likely to be uncomfortable.

Those who work for large businesses have a tendency to look inwards – at the boss and office politics – rather than outwards to customers and suppliers. Reflecting on her days at Go, Cassani suggested that if you live and die by your decisions then you are likely to make better decisions.

Making lower costs a virtue is fine, but you have to be careful not to give employees the impression that they haven't been working hard enough.

"Relentlessly lowering cost isn't motivating," she said, but added that it was constantly worth asking suppliers whether they were giving their best prices. She said suppliers would often improve their terms if you in turn made a commitment to grow using their services.

Cassani: it's time for guts and determination

As for keeping a startup flying, Cassani suggested that innovation meant taking risks. She advocated keeping a close eye on the competition and stealing their good ideas. Startups also need to make successful judgements, knowing when to fight and when to run.

People needed to be encouraged to take risks, she said, but also allowed to make mistakes. "Give them rope and allow them to break the rules. And when they screw up, don't come down on them like a ton of bricks. Risk taking is like trust: it builds up over time."

In today's business climate, Cassani said it was important to kill sacred cows and ruffle feathers (and, yes, she acknowledged she was mixing her farmyard metaphors). She challenged the idea that loss-making divisions should be allowed to continue if they were strategically important. According to Cassani, if it has no clear pathway towards profitability, then it should go.

This is the time when it is important for managers to lead. If change is required, then managers have to be prepared to make sacrifices along with everyone else. If you change your behaviour, others will follow, but hypocrisy and double standards, such as keeping hold of some perk, will be noted.

Above all, when managing change, it is necessary to have confidence to stay the course. And while it may be more difficult, creating sustainable business advantage in stormy seas is personally a more satisfying task.

M&A market makes ready to advance

While there have been some enormous mergers and acquisitions over the past 12 months, M&A activity has fallen by around 50% since 2006, with the crisis taking major financial sponsors and institutions out of the market (other than for distress takeovers such as BNP Paribas's acquisition of elements of Fortis).

But this aspect of corporate activity may well be ready for an upswing, as an ACTAC track session hosted by Bank of America Merrill Lynch made clear.

Jorg Passler, group treasurer of specialist paper company Sappi International, gave a presentation of its M&A activity over the past 18 months. Although the company's rationale for its takeover of an industry rival was strategically sound and appreciated by investors, ratings agencies and analysts alike, the financial markets seized up in 2008. The eventual solution was based on an increase in equity provided by existing shareholders and a vendor loan payable in three years from close. Passler said a clear plan, flexibility in financial structuring and open lines of communication were key.

When the issue was thrown open to the floor for debate, it became clear that bankable M&A deals require the management of close banking relationships on a "club" basis and with a commitment to sharing the corporate "wallet". Treasurers need to concentrate on the cashflow throughout their business to ensure all internal resources are fully utilised.

Also, flexibility is a key principle, whether in the documentation, negotiation with the target over payment terms or the retention of minority stakes or in agreeing financing take-outs with lenders.

Masters of the risk jungle

Ward: volatility is a good proxy for risk

Treasurers have excellent opportunities for effective risk management in the current global economic situation, according to Paul Ward, head of EMEA, corporate coverage and advisory, global banking and markets, RBS.

He reminded delegates that until mid-2007, market conditions had been benign for more than a decade. Market volatility had fallen, equity prices risen and interest rates remained relatively stable. Credit spreads continued to push all-time lows, deal volumes were at record levels, and leveraged lending pushed new boundaries, including covenant-lite loans.

But by mid-2007 cracks in the market had appeared, with concerns rising about US sub-prime lending. Ward described market conditions as "violent" in the first and fourth quarters of 2008. Inactivity during the spring and summer created a false calm but conditions continued to erode. Then the collapse of Lehman in September made it look like no one was safe, and deleveraging and securing liquidity became top priorities and volatility the norm.

Ward said that volatility was a good proxy for risk as it reflected the price that was paid to buy an option. The price of a wide range of S&P 500 index options more than trebled in late September, mirroring the rise of risk.

Ward blamed the crisis on excessive leverage and lack of transparency. He dismissed the pre-crunch opinion of market experts that a new paradigm had been established, where financial leverage could continue to grow well beyond the long-term trend.

He said that over the last 15 years the developed economies had built up their financial leverage to levels that had never before been seen. History shows that each period of excessive leverage has been followed by a period of rapid deleverage, which in itself has been a precursor to a recession.

The most recent deleveraging and lack of transparency has had a devastating impact on banks, with collapsing asset pricing and everyone fearful of everyone else. Liquidity has dried up and the cost of the available funding gone through the roof. To date, trillions of government support have been provided through capital injections, guarantees, liquidity provisions and asset purchases. Across the world 80 banks have received support from their governments, and 42 countries have announced government intervention schemes.

Turning to his own organisation, Ward said that the problems at RBS stemmed primarily from "insufficient restraint" in growth of the balance sheet and risk.

"As a result, capital ratios were too low when the crisis hit and we were not adequately fortified against the storm. So we sought shelter. Recapitalisation provided by the UK government ended with public ownership at 70% and new management. Now at RBS we're intently managing down the balance sheet. A strategic review has identified non-core businesses for disposal or rundown.

"And just to avoid any doubt: that won't affect the relationships that RBS has with any of you here or the companies you represent. Business with you remains absolutely core to RBS."

He said that as a result of the bank's actions – including taking part in the government's asset protection scheme to insure itself against loss in over £300bn of portfolios – its extension of capital and liquidity to its UK customers "has improved significantly".

What started with the banks is now reverberating through the rest of the economy. Earnings estimates are down, credit ratings falling and many companies seeking additional equity protection. However, Ward pointed out that "risk is doing exactly what risk is supposed to do". Highly leveraged and cyclical companies are typically in more trouble than companies with lower leverage or in non-cyclical industries.

Equity analysts have clearly caught onto any potential refinancing issues with a consequent impact on their recommendation, so it has become imperative for treasurers to manage corporate funding and liquidity risk.

The capital markets have lost financial flexibility and undergone a complete "repricing of risk" across the entire market. For example, credit spreads in the banking market are now typically five to six times higher than before and tenors have shortened from five to three years. As a general indication in the increase in cost in the loan market, single A rated corporates have seen credit spreads increase from 25 to 150 basis points and BBB rated corporates have widened from 40 to 200 basis points.

The bank market in particular has lost available funding and credit, driven by a decreasing number of bank relationships. The banking landscape has changed, with many investment banks having gone out of business, merged into commercial banks or converted into commercial banks. Many banks, particularly those receiving government assistance, are retrenching to home markets. For those that remain there is less capital and credit to go round, which means higher returns required for the capital provided.

By contrast the public debt market is awash with liquidity. However, Ward warned that the public debt market was "hardly a perfect cure" for the bank market. Windows of liquidity can close without warning and the market is not fully open to all credits. Financial flexibility has become more constricted due to changes in documentation such as the standard inclusion of change-of-control provisions and an increase in step-ups based on ratios.

While this is a challenging time for treasurers and their organisations, the traditional areas of treasury expertise such as risk management and cash are now getting top billing in the decision hierarchy. Ward called on treasurers to implement changes to protect their companies.

How to survive in a crisis

The issue of how to develop and maintain a robust and sustainable treasury policy – and by extension, corporate financial management – was the subject of an excellent track session at the conference.

The large number of delegates were treated to a corporate case study from Alex Harris, group treasurer of Virgin Atlantic Airways. Harris went beyond recent history in discussing the development of his principles, specifically to the period from 2000. Since then, airlines have had to deal with terrorism (still a continuing threat), the threat of disease pandemics such as SARS, and intense volatility in oil and petrol prices.

The experience of dealing with external crises has made the Virgin treasury, which is structured and organised on a centralised basis, flexible in its appreciation of risk. Although the recent financial crisis was not explicitly prepared for, Virgin's previous experiences in treasury management allowed it to take a series of steps in response to market turmoil.

Virgin's situation was complicated by a historically close relationship with Lehman Brothers, and the airline began making cash margin calls on FX contracts using its ISDA and CSA documentation. It also used a wider range of counterparties for hedging transactions, albeit with lower credit limits, and sought and received board approval to suspend guidelines to allow for counterparty risk management. In short, the key factors at Virgin in dealing with the crisis have been flexibility and communication.

Bente Salt, group treasurer of offshore oilfield services company Acergy, talked the audience through what she hoped "no one would have to experience": a corporate workout under distressed financial conditions. While it came as no surprise that all eyes fell on corporate cash – wherever it was and however much or little – the other conclusions she shared with the audience were of considerable value. The one overarching feature, however, was Salt's insistence that everything should be done in as transparent and open a manner as legally allowed.

Her other recommendations included:

- not relying on relationship bankers or banks: the individual managers will be supplanted by faceless credit committees;
- making sure you know your documentation, your covenants and your major non-financial contracts – get some good lawyers if necessary!
- giving consideration to using non-lending banks for cash management to allow the company (rather than the lending banks) to make its payments;
- paying up derivatives contracts to avoid margin calls under a CSA;
- drawing down as much credit as possible under committed facilities and elsewhere;
- centralising all corporate banking and credit provision – a serious management point that has to be board-driven;
- making treasury responsibilities clear and understood by all – managers, auditors, line management; and
- paying salaries first and every time!

The subsequent audience Q&A revealed that although cash and banking management is increasingly centralised, many corporates feel there is more to be done and more the banking and systems community can do to raise transparency.

The issue about communication was also discussed and delegates were encouraged to think as widely as necessary in terms of disseminating information: to analysts, credit insurers and ratings agencies, as well as all classes of investor and employees, even governments where appropriate.

Overall, the principle was widely agreed that treasurers need to have policies that work and allow for flexibility.

Praise the board...

The gala dinner is always a highlight of the ACT Annual Conference and this year's event took place in the stunning surroundings of Gorton Monastery, a renovated Victorian Franciscan monastery, designed by Edward Pugin, just a short distance from the conference venue.

Following a champagne reception in the blossom-filled grounds and then dinner, David Bryon, former managing director of airline BMIbaby, entertained the guests with tales of how to run a low-cost carrier – or not.

The guests then returned to the bar of the Midland Hotel for further networking opportunities, which went on in some cases until the early hours.

FX roulette

Delegates take time out from the busy ACTAC schedule for drinks before the gala dinner at Gorton

The volatility in the dollar/sterling exchange rate and the remarkable movements in the price of a barrel of oil over the past 12 months have rather disguised the equally tremendous swings in value of currencies and interest rates in emerging markets over the past six months. These movements – and how treasurers can try and manage them – were the subject of a pre-conference workshop given by Deutsche Bank.

In the foreign exchange (FX) markets, currency devaluations by even strong economies such as Singapore and currency sell-offs in European economies such as Hungary and Russia have thrown up tough treasury challenges. Treasurers need to analyse their businesses in these territories to look for unwanted impacts on cashflows, balance sheet valuations and knock-on impacts on covenant management. Clearly, the level of engagement with a distressed economy may mitigate some of these issues (does the corporate have local supply to support local manufacture?) but treasurers need to be aware of their responsibilities. And, just when they might have needed support, the FX markets (where available) have dried up in terms of credit available and possible maturities!

Interest rate volatility has been equally extreme. While interest rates in OECD economies have been slashed, the problems of lack of liquidity and availability of credit have affected all markets; one delegate from Sudan recounted some sorry problems in dealing with onshore and offshore dollar balances. Treasurers need to be conscious of trapped cash issues, restrictions on repatriation and rationed exchange opportunities.

In the area of sovereign credit, the recent default by Ecuador and desperate attempts by countries such as Argentina to shore up their public finances have exposed corporates to greater political risk. Restricted access to export credit agency facilities has made the job of managing these exposures more difficult than in previous financial crises.

So what remedies do corporate treasurers have to address these risks? In simple terms the starting point is for the treasurer to assess the level of likely exposure and compare this with the company's risk appetite. In some cases, where these are in equilibrium, the remedy is to keep a watching brief. But what can be done when there is downside exposure?

Wherever possible the treasurer should take advantage of traditional hedging markets in foreign exchange, interest rates and funding. Where these are difficult to access, then consideration could be given to more aggressive strategies in options or structured hedging opportunities.

Option strategies might include zero-cost collars to limit downside risk by willingly sacrificing upside gain. Structured hedging might be taking disaster credit protection on sovereign risk as a proxy for FX or interest rate exposures. In cases where corporates are exporting from distressed economies, they may be able to monetise their position in an asymmetric FX market.

Ultimately, a corporate has to decide what its relationship is with a given territory and the risk/reward position it and its shareholders are prepared to be exposed to. Clearly, there may also be accounting impacts from whatever strategy is selected, but that will also reflect the exposure position the company wishes to hold.

The stars of the show

The ACT would like to thank all the delegates, speakers, exhibitors and sponsors who contributed to making this year's ACT Annual Conference such a success. We would also like to thank the Manchester Central convention complex for its hospitality.

The ACT stand featured a Formula 1 challenge. Congratulations for first place go to Arjan Hes of Mytreasury with a time of 1m 24.967 seconds. Colin Butcher of Lloyds TSB with a time 1m 25.184 came second, and Chris Howes-Roberts of Commerzbank came third with 1m 26.001.

Also on the ACT stand, the Action for Kids champagne draw winner was Colin Monyo of Bloomberg.

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Appetite grows for corporate bonds

Treasurers are having to adapt the changes in the funding landscape, with investment-grade corporate bonds now seen as a safe haven compared with real estate and structured credit instruments, which have had steeper price declines and higher volatility, according to Robin Stoole, director of debt capital markets at Lloyds TSB Corporate Markets.

Because institutional investors see an attractive risk/reward proposition and feel overcompensated for default risk, there has been a pan-European surge in retail demand. Corporate bond supply has increased strongly, with record issuance volumes. However, Stoole said that demand for corporate bonds had split, with market capacity for stable, defensive names increasing substantially while demand for lower-quality credits, though improving, remained modest. Corporates with sub-investment grade or unrated credit have limited access to the market.

Andrew Kluth, head of funding at National Grid, a FTSE 20 investment-grade utility with £22bn of net debt, negative cashflow and a refinancing need of between £2bn and £3bn a year from the bond markets, said the irrational pessimism of debt investors had driven credit spreads wider and generated "new issue premiums" with yield intermittently above regulatory allowances and with "crushingly high Libor margins".

He added that in a credit-constrained illiquid world, debt investors had massively more assets than banks, so continual engagement was vital. Kluth has adopted a greater pragmatism on price and a greater debt investor engagement across more countries. He warned that he had spent more time and money on aborted deals, including Samurai, Maple and Swiss franc bonds.

Derek O'Neill is head of treasury and tax at FTSE 250 international aerospace and defence group Meggitt. The company – which is unrated – has a market cap of £800m, net debt of £1bn and a treasury team of one and a half people. O'Neill explained how he refinanced using a forward-start rolling credit facility. The deal included two financial covenants – net debt/EBITDA and interest cover. Safeguards for the company included frozen UK GAAP to exclude IFRS effects; the calculation of net debt at average exchange rates to match rates used for profit translation; the exclusion of the pension deficit; and the use of pre-acquisition EBITDA in the year of acquisition.

Stoole: demand for corporate bonds has split

Save the sponsor

Pensions are a perennial subject for discussion at conferences and high on the agenda in recent years has been the concept of liability-driven investing, so it was interesting to see that the focus chosen for the Aon-sponsored session on pensions this year was instead how cash could be saved for the sponsor, at least for a while, to help see it through a cash crisis.

Cash-saving ideas came thick and fast at the session. Some would be particularly painful for employees, but they could well be the only measure that could keep the pension scheme sponsor in existence.

The ideas included:

- closing or redesigning the pension scheme;
- suspending pension accruals for a period, perhaps with a promise to make good later;
- renegotiating the payment profile of any recovery programme payments and putting in place alternative security arrangements;
- PPF levy mitigation through addressing the risk-based element dependent on sponsor solvency;
- adviser fees, but with the caveat not to cut the genuine compliance element; and
- consolidating group schemes, even if funds are kept sectionalised, to help make savings on trustees, advisers and administration.

The treasurers' champion

Bacon: treasurers in driving seat

Closing the conference, chairman and ACT incoming president Gerry Bacon reflected on the main themes that had emerged over the three days.

It was clear, he said, that the world was on the brink of more regulation. In the West, consumer debt has to come down and, just as inevitably, taxes are on the way up. He also made a plea for useful information rather than just endless data.

While quantitative easing may provide some respite, capital will remain scarce. It seems it is only a matter of time before inflation reappears. As a society we need to save more and de-gear but also be sensitive to those disadvantaged by the global recession. We can look forward to a world with more state intervention, but the state needs to be explicit about the sectors and industries it is prepared to support.

Bacon also welcomed banks to the real world. The banks are now retrenching and bank capital will remain expensive until more competition emerges. The conference had heard that more bank losses were likely – perhaps as much as a $1 trillion – and estimates about the amount of capital the sector requires varies between $750bn and $3 trillion. Now is the time for banks to be boring.

Corporate treasurers have an opportunity to be closer to the business because they can understand and manage risk properly. Companies need to be proactive if they require equity and should look to find funding where they can. Treasurers should also be involved in running the downside case.

But it is not all gloom and doom. An ACT survey found that most corporate treasurers were reasonably prepared.

Bacon closed the conference by saying he would be working with ACT chief executive Stuart Siddall and the ACT team to ensure the interests and needs of all members – corporate, banks and advisers – are well serviced in terms of education, training, conferences, publications and representations to authorities.