All lit up in Abu Dhabi

MAY'S **TALKINGTREASURY** EVENT IN ABU DHABI FOR ACT MIDDLE EAST IGNITED THE AUDIENCE WITH LIVELY, WELL-INFORMED DEBATE, SAYS **PETER MATZA.**

Corporate governance is a critical issue for the regulatory authorities in Abu Dhabi (AD). Over the past three years, according to Khalid Deeb, director general, the Abu Dhabi Center for Corporate Governance (ADCCG) has supported this effort. A Code for listed companies is now in place and the majority have complied but effective management needs implementation rather than commitment. The government of AD and the Ministry of Economy have additionally been working on a framework for privately held companies and state-owned enterprises and other government bodies.

Despite all these progressive regulatory initiatives, the financial crisis has exposed serious weaknesses in corporate governance and boards need to be proactive. There is certainly a need for corporate policy and leadership, boards must reconsider relationship between board and executive management even where there are cultural issues to overcome and lastly, there must be investment in education and training for board members in risk management, strategic planning, and performance measurement of executive management.

MANAGING RISK The first panel session on risk management was facilitated by James Lockyer, director of education at the ACT. The panel was asked to discuss how treasurers should manage risk in their organisations to control the (enterprise) value of the firm. Corporate finance theory tells us what a firm is worth but risk will determine the reality of that valuation. Risk management cannot be separated from the business of the company. ERM has become the structure for examining the company and its risk profile as Figure 1 shows.

Many GCC businesses have yet to properly recognise the need for a formalised management approach to risk management – especially across the full range of risk issues including strategic and wider business exposures. Even smaller businesses need to consider the impact of exposure: especially in liquidity risk whether surplus or deficit (for example, companies will need to become used to holding cash as contingent for market failure); counterparty risk, with suppliers and buyers of financial and operations services; and credit risk, specifically financial exposure but also availability, geographic and concentration.

The panel view was that principles are consistent even if business scale varies. Qualitative judgements about business relationships are important in economies where cultural values remain (such as in the Middle East) but in many aspects – for example 'name' lending – these practices have been downgraded during the recent financial crisis.

However it is worth asking whether risk management will lower the cost of capital/increase the value of the firm? The general response was yes – whether from centralising financial hedging or from ensuring there is a structure involving the whole business. The key issue is that there is responsibility.

The second discussion of the day returned to the topic of governance both in general applications as well as in responding to regulatory and legal pressures. In broad terms,

corporate governance should be viewed as a value proposition for an organisation, its owners and its management. Simple compliance with external rules could be viewed as insufficient for the fully effective and efficient management of a business. For example independent non-executive directors must have an opportunity at board meetings to challenge strategy and execution by management not simply 'rubber-stamp' their decisions. For their part, treasurers should be prepared to be both accountable for their own activities and engage with their boards on financial and business strategy – whether in specific areas such as managing counterparty limits with their banks or in more general areas such as the balance between capital allocation and reward.

Investors will increasingly look for clear signs of effective governance when making investment decisions. There was general agreement however that Middle East businesses and organisations do understand the imperatives and the benefits of governance and management standards.

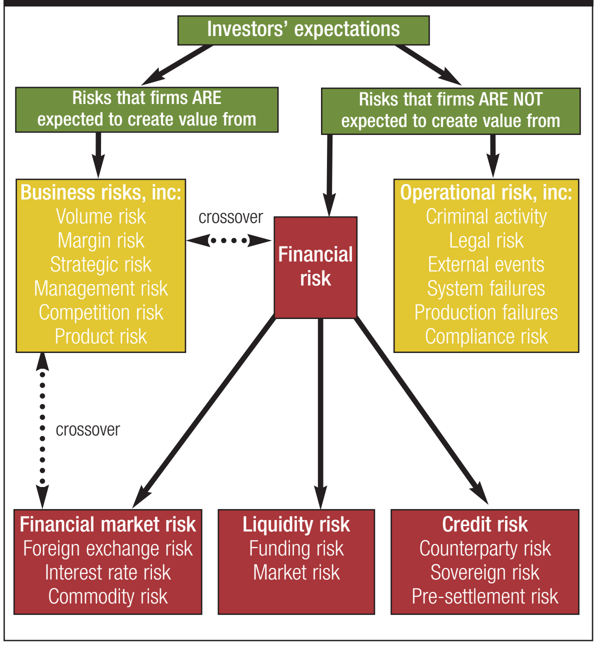
TREASURY MANAGEMENT Moving on from risk and governance, the debate turned towards efficiency in a particular area of treasury management, focusing on cash, banking and treasury management systems (TMS) and controlling internal processes. The principles should be a single set of standardised controls and practices. Systems need to be viewed in the context of the company and its markets to ensure a paced development.

An organisation's TMS should be viewed as the 'workhorse' of treasury, from cash forecasting and receivables to managing surpluses and payables. However treasurers should consider carefully the interaction with other internal systems (e.g. accounting) as well as banking systems externally. Where commercial payments for example still rely on cheques, the electronic payments capability of a TMS may not be fully realised. Even where an organisation has not reached the scale to implement a TMS, internal practices should as far as possible become generic rather than personal – separation of payment authorities for example.

The development of robust national and international funds flow networks also needs to be monitored so treasurers can ensure they are using the most effective and efficient systems available in supply chain management. This is particularly necessary in the Middle East as central banks and regulators build out their infrastructures to try and meet global standards. Even so, treasurers still have to contend with wide variations in local and regional business banking practices.

SHOWING LEADERSHIP The final panel of the day was designed to draw together all the topics of the conference in a discussion of how treasurers can show leadership in

Figure 1: Types of risk – corporate risk classification



business management. The key message is that in today's financial climate, treasurers have an opportunity to bring their skills and aptitude to the executive table and add material value to any business or organisation.

Having said that, there is no excuse not to do the 'day-job' properly. It is incumbent on whoever has the responsibilities of treasury management that the correct structure is in place at their organisation: policies, procedures, measurement and compliance. From this base a treasurer will be able to offer all stakeholders a clear and consistent approach to managing both financial and wider business risks that are his responsibility. Benchmarking is an example of how a proactive treasurer can raise his profile as well as support a case for wider treasury involvement in an organisation. Treasurers should be careful not to be 'captured' by benchmarking as there can be a circular tendency to look for validation of only those activities that can be measured. Quite apart from it being more difficult in a business and social environment such as the Middle East where transparency is not yet wholly prevalent, treasurers must recognise that areas such as investor relations management are important – even if less tangible than, say, specific returns on capital.

IN TODAY'S FINANCIAL CLIMATE, TREASURERS HAVE AN OPPORTUNITY TO BRING THEIR SKILLS AND APTITUDE TO THE EXECUTIVE TABLE AND ADD MATERIAL VALUE TO ANY BUSINESS OR ORGANISATION.

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Qatar joins the table

ACTME's inaugural meeting of treasury, risk and corporate finance professionals in Qatar took place on 12 May, when its representative in Qatar, Jacob Tharakan AMCT, from Qatar Telecom (Q Tel) welcomed over 30 delegates to a networking breakfast briefing. Corporate delegates came from leading Qatari businesses including Qatar Gas, Vodafone Qatar, Ras Gas and Qatar Power. From the banking and advisory sector, there were delegates from Qatar National Bank, Citi, RBS, HSBC and Sungard. The intention is that treasurers and other finance professionals in Qatar will lend their weight both to the development of the ACT Middle East and to the growth of professional treasury management in Qatar.

The meeting was given a thorough overview of the Qatari economy by Roy Thomas, a senior economist from Qatar National Bank (QNB). In recent years Qatar has seen exponential growth in population, GDP (around 15% pa in real terms on a compound basis) and current account surpluses. Public expenditure continues to rise and investment in hydrocarbon projects is maintained. The local banking sector has had mixed results over the past two years but overall was flat in net profit terms between 2008 and 2009 although it recently showed more positive signs. Assets and deposits have continued to grow albeit within a more stringent credit environment. In general the local banking sector is in good health.

Rana Fayez El-Hajjar, head of cash management at Qatar Gas, gave an overview of the treasury management challenges at the fast-growing business including a loan portfolio in excess of $14bn with stringent loan covenants and multiple cash waterfalls and a multi-billion dollar construction and operating insurance programme. El-Hajjar has no doubt that treasurers have a substantive role to play in developing corporate strategy and the execution of that strategy.

The meeting concluded with a wide-ranging panel discussion that included the banker's view from Mark Abrahams of QNB; Stefan Zottmann, senior director group treasury, Q Tel; Abdulaziz Al-Kuwari, treasurer at Ras Gas; and El-Hajjar. The panel broadly agreed that while business in Qatar was subject to growing pains, in general the government and regulators were making the correct decisions to stimulate economic activity. While not immune to regional and global financial pressures – which affect some local practices (for example the cessation of 'name-lending', the ending of post-dated cheque issuance) – the panel was happy with current developments. Zottmann however warned that to fully develop, both experienced and qualified finance professionals would be needed across all sectors of business and management. Clearly there is considerable scope for the ACTME to play its part.