AT THE ACT'S ANNUAL CONFERENCE IN APRIL, A HOST OF SPEAKERS OFFERED CLEAR INSIGHTS INTO THE DILEMMAS CURRENTLY CONFRONTING TREASURERS. THE FOLLOWING PAGES PROVIDE COVERAGE OF THE KEY THEMES THAT CAME UP FOR DEBATE AS WELL AS SOME LIGHTER MOMENTS.

Triple whammy looms for UK

The incoming government faces three big tests, according to Richard Lambert, director general of the CBI, with banking reform accounting for two of them. The CBI boss said there was no clear consensus between the political parties on where reforms could go, and that any radical surgery on the banks could risk adding yet more delay to lending to the real economy.

"Keeping the lights on" was the way Lambert characterised the third big challenge to the newly formed British government. All energy solutions were possible – gas storage, investment in offshore wind, carbon capture, even nuclear – said Lambert, but not if the politicians argued.

Business leaders as well as the politicians face challenges, according to Lambert. They had to communicate to the incoming administration, and to all new MPs, that a strong business sector plays a vital role in securing and maintaining a healthy society.

Lambert: question marks over energy security

Lambert said: "If ever there was a time for business to become involved in a political discussion, it is now."

Before Lambert took to the podium, Jane Fuller, co-director of think-tank the Centre for the Study of Financial Innovation (CSFI), gave an analysis of the current state of what she described as "the great reregulation".

After describing all the change in the pipeline, Fuller posed the question: "Each of these measures in isolation may seem reasonable but, cumulatively, does it amount to an overzealous reaction from governments which will constrain lending to the real economy?"

Fuller also took issue with Tim Congdon's suggestion (see page 16 of this issue) that there were not many financial institutions that went into the downturn with too little capital.

Risk requires action, not reaction

Risk management and in particular a proactive rather than a reactive treasury was the theme of a track session from SunGard. A lively debate and considerable audience participation established some guidelines that treasurers could consider following.

As a first step, treasurers and other financial managers were encouraged to appreciate that risk knowledge was about the understanding of exposures (the things that can and do go wrong) and the options available to deal with them.

While treasurers and others can manage the risk environment, the executive leadership of the organisation has a responsibility to evaluate its own risk culture and tolerance to pain. As in all management tasks, responsibility and accountability are key principles in risk management. While treasurers bring considerable analytical and hedging skills to the table, their business colleagues also have much to contribute and their value needs to be recognised too.

But business is about risk, so there must be a balance in how risk acceptance, mitigation and/or hedging is managed. There is no such thing as complete risk elimination. For the management process to work, information systems need to be accurate, enhance the quality of information and support a drive for better decision-making.

Treasurers show their mettle in crisis

Many treasurers believe that the financial crisis has gained them boardroom attention. In a survey unveiled at the conference, PricewaterhouseCoopers found that more than 70% thought the crisis had highlighted the value they add to the business.

The survey results suggest that since PwC's last treasury survey in 2006, treasurers have continued to move closer to the business.

PwC said that the demands placed on treasury teams had been turned on their head.

In particular, ensuring the business has access to short-term funding, an area that had once been largely taken for granted and was a secondary issue in 2006, is now the overriding concern.

Turn to page 30 for more PwC survey results

ACT makes exhibition of itself

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

The ACT stand featured a fiercely competitive table football competition, with prizes donated by the conference charity WellChild.

Winner of the Manchester United signed football was Charles Van der Welle, director of treasury at ITV, with 23 goals in three minutes (unbelievable but true). And the winner of the signed England shirt was David Daniels, assistant treasurer at InterContinental Hotels Group, with 16 goals.

Which just goes to show that an MCT qualification (which both van der Welle and Daniels possess) improves skills all round!

The ACT also decided to give away some very large blue hands emblazoned with the ACT logo. Well, why not?

Right: the ACT's big foam fingers
Below: ACT chief executive Stuart Siddall and WellChild's Stacy Yeates with the runner's up prize

Co-lead sponsors:

Getting the best from the business

Business leaders should act like orchestra conductors, according to a high-profile serial entrepreneur. Pierre-Yves Gerbeau, chief executive of X-Leisure, said that leaders should neither patronise nor dictate. Gerbeau, better known as PY, is famous in the UK for being the chief executive of the Millennium Dome and attracted over six million visitors to the much maligned attraction.

In an amusing presentation – PY claimed to be the most popular Frenchman in the UK – he said he had assisted in nine corporate turnarounds in as many years, and notched up eight wins with the jury still out on one.

Homage to Trotsky: Pierre-Yves Gerbeau advocates permanent revolution to the conference

PY said that companies needed to be chameleon-like, with adaptability a crucial characteristic in a competitive environment.

It is also vital to protect the corporate's reputation and its customers. A happy customer might tell a handful of people of their experience and before the web an unhappy customer may have told a few more. Now millions can know of a customer's dissatisfaction through the internet. Businesses have to react to that. PY said his staff had the power to decide whether to give customers a refund and could do so in cash on the spot.

He said great leaders did not have a job but a mission and that people needed to become comfortable with the idea of permanent revolution. In change management it was always a struggle dealing with the sceptics who said that change could not be achieved.

Employees need to be committed but they also need to be allowed to boo the management when they think something is wrong. Business leaders have to be proactive, they have to lead by example and they have to understand that they are frequently being asked to do better with less.

Cash solutions re-evaluated

Cash management and trade finance policy continue to grow in importance for treasurers. According to Andrew Reid, head of corporate cash management sales, UK/Ireland and Nordics, Deutsche Bank, corporates have made practical changes to the way they approach cash management and trade finance in the wake of the financial crisis.

The different approaches include a re-evaluation of counterparties, a review of the way transactions are performed and a greater interest in benchmarking and best practice. Reid said that there was a growing convergence of once disparate cash management and trade finance products driven by market forces and improvements in technology.

Russell Brown, head of trade finance, UK/Ireland and Nordics, Deutsche Bank, said that corporates were scrutinising their supply chain risk strategies more closely. He said that the slump in global trade flows over the last 18 months had driven an increasing take-up of supply chain finance. He added that cynicism towards supply chain finance had disappeared and the hot air that had surrounded the subject had been replaced with viable and workable solutions.

SPEAKER'S CORNER

The conference continued on the Tuesday evening with the gala dinner at the Palace Hotel, a short walk from the conference centre. Everyone involved with the conference enjoyed the evening in the century-old building, formerly the home of Refuge Assurance. The after-dinner speaker was the highly entertaining journalist, broadcaster and ballroom dancer John Sergeant. After a witty speech, he invited questions from the audience, but declined to say who he would be voting for in the election. Sadly, no dancing either…

New avenues for the cash-strapped company

The panel on alternative funding played out to a packed theatre looking for debt capital market tips

In a JP Morgan track session on alternative funding, there was standing room only for treasurers eager to find where the debt capital markets might be heading and what options might be available for borrowers of various sizes and credit quality.

Sadly for SMEs, while sizeable, investment-grade corporates have relatively easy access to loan and debt capital markets they face a lending squeeze that becomes ever more painful as their size or credit position diminishes. Paradoxically a company on bank "life support" is more likely to survive than one that is merely struggling!

JP Morgan suggested a number of avenues for treasurers to consider, including taking a fresh look at the convertible markets as well as scouring their trade and supply chain funding operations for cash and liquidity. However, the "low-hanging fruit" has long gone.

The debt capital markets do offer some respite for good-quality unrated names and an increasing number of funds are prepared to look at these investment opportunities. Traditionally the haunt of household names such as Heineken, the debt capital market has advanced to a stage where such issuance represents nearly 10% of corporate bond issuance overall in the euro markets. In the UK, a number of well-known bond funds are attempting to create a sustainable UK private placement market.

The convertible market has long been viewed with suspicion by UK treasurers. But some of its main features – no ratings needed, not sector-specific, more flexible pricing and limited financial covenants – are starting to appeal to the UK issuer community. Developments in convertible options strategies are also contributing further value to the equity management position.

M&A comes back to life

Barclays Capital raised the issue of mergers and acquisitions in a post-financial crisis world at a very well-attended track session on the second day of the conference.

Broadly speaking, the reduction in corporate activity in 2008 and early 2009 has abated and a number of recent surveys point to an increasing volume of M&A deals across all business sectors. In some cases hostile offers (such as Kraft's for Cadbury) have garnered headlines, which have required an increased cash element. The 2009/10 equity rally has allowed institutional shareholders to hold out for stretched valuations and ask for more cash – even where they are already holding heavy cash balances!

Clearly the private equity boom of the late 2000s has bitten the dust but while the value of private equity transactions has plummeted, the number of deals has held steady through 2009 and into 2010, and financial sponsors are returning to the market.

Treasurers looking to finance corporate M&A need to ensure they get involved early in the planning process. Making their banking relationships work needs more focus and time, even where bond take-outs are expected or, more likely, where banks demand penal pricing for failure to take down the debt. From an equity perspective, the same attention to detail is required especially where pre-emption rules are involved. There are alternatives (cashbox issuance, for example) but they need careful planning and execution.

Pension scheme risk focus must switch to longevity

Treasurers must ensure that their companies continue to explore ways to manage pensions risk.

The conference heard how risk falls into four distinct categories: past benefits, future benefits, investment and settlement. In the session chaired by Danny Witter, head of UK corporate coverage, Deutsche Bank, one of the key issues debated was longevity risk, partly because other risks have been dealt with to some extent over the last few years.

Steven Dicker, senior consultant at consultancy Towers Watson, said that while there were lots of risks, there was also a lot of mitigation options and treasurers needed to adopt a holistic approach and implement solutions in a dynamic fashion.

Robert West, head of the pensions department at law firm Baker McKenzie, looked at controlling defined pension liabilities through terminating accrual and using derisking solutions. The main issues to deal with are pension law, the plan and its trustees, and employment law and changing employees' terms and conditions.

Outright winding up of a scheme is expensive from a financial perspective because of the need for the employer to meet the deficit and buy out the high cost of the benefits. An alternative could be to amend scheme rules to terminate accrual.

Before making such a move the protection in place and the powers of the trustees and their likely reaction need to be gauged. West said that many of the issues treasurers would encounter were surmountable but added that it was important to get the trustees on board. Dealing with employment law requires forward thinking – 60 days' consultation is often required – and careful checking to see what powers the employer may have reserved to itself to change or wind up the scheme.

Martin Bird, who leads on longevity and risk solutions at Hewitt Associates, suggested that longevity risk was different from economic risk. Economic risks become more predictable the longer the risk runs, but for longevity risk the longer the risk is run the more extreme the outcomes could be.

UK pension scheme attitudes are divided over longevity risk and there are two types of longevity swaps. First, there are the scheme-specific swaps, where named lives are covered within the scheme and the minimum transaction size is £200m. Second, index-based swaps use derivatives whose value is derived from the observed mortality for a given population.

Question time: final flourish

The conference finished on its traditional high note with a Question Time panel facing a grilling from the large number of conference delegates. They had stayed to the very end to see broadcaster Zeinab Badawi attempting to force those answering the questions to stick to the point.

On the panel were Colin Talbot, professor of public policy and management, Manchester Business School; Trevor Williams, chief economist, Lloyds TSB Corporate Markets; Nick Feaviour, group director of treasury of Thomas Cook; and Pierre-Yves Gerbeau, chief executive, X-Leisure.

A wide range of questions kept everyone on their toes and provoked some lively discussion on the credit crisis, the financial deficit and risk management. There was even the traditional quirky question: which tax would the panel abolish and which would they introduce?

The session was sponsored by Lloyds Banking Group.

Banking pledges to regain trust

Confidence in the financial markets and the banks has improved since the last Annual Conference. That was the conclusion of Paul Ward, head of EMEA corporate coverage at RBS, who addressed the conference about rebuilding market confidence.

From a banking perspective confidence had collapsed because of the poor risk stewardship of some elements of the financial sector. Ward said there had been overconfidence in managing new, complex products and in terms of risk management banks had gone from being the solution provider to part of the problem. Complacency had led to high leverage ratios.

But a year on Ward discerned signs of recovery. The capital markets were healthy in 2009; indeed, in terms of issuance in 2010 the pace has slowed to more normal levels, while mergers and acquisitions appear to be making a comeback and the equity markets have been strong.

By widely accepted measures risk appetite appears to be growing. Spreads are coming in and volatility is decreasing and after tumbling from 2004 to 2008 the Global CEO Confidence Index is moving upwards, returning to levels not seen since early 2007. Despite the good news, well-known jitters remain, notably around sovereign debt, forthcoming tighter regulation and uncertainty around what the recovery will look like.

Ward said that those, like his own bank, who had been caught up in the crisis of confidence had to work to regain trust. He said the recipe included acknowledging mistakes, changing behaviour to prevent a recurrence and being open and transparent so that people could see the change.

Save the date

It is never too early to start thinking about next year's ACT Annual Conference. After two very successful years in Manchester, ACTAC is moving a few miles down the East Lancs Road to Liverpool for its 2011 venue.

The 2011 conference will be held at arena and convention centre Liverpool ACC, a unique facility which is located in an iconic building on Liverpool's Mersey waterfront, a world heritage site, alongside the Victorian splendour of the Grade I listed Albert Dock.

The annual conference gala dinner will be hosted in the spectacular magnificence of Liverpool's Anglican Cathedral.

The dean of the cathedral, ex-treasurer Justin Welby, is the confidential adviser on ethical and personal issues for ACT members.

Make a note of the date: 10-11 May 2011.