A HOST OF SPEAKERS AT THE ACT'S ANNUAL CONFERENCE IN APRIL OFFERED CLEAR INSIGHTS INTO THE DILEMMAS FACING CORPORATE TREASURERS. THESE PAGES PROVIDE COVERAGE OF THE KEY THEMES THAT CAME UP FOR DEBATE.

How Tesco turned itself around

After some of the downbeat messages about risk, recovery and regulation, the conference finished on an overwhelmingly positive note. Sir Terry Leahy, the former CEO of Tesco, looked at leadership, transparency and growth.

At the time of the recession in 1992 the City and the media did not see the prospects for Tesco as promising, caught as it was between the two stools of quality and value. Sir Terry suggested that the change in Tesco's fortunes between that point and today represents one of the most unlikely turnaround stories in British business history.

He set out the management lessons from his time at Tesco. First, it is essential to find out the truth about your business: if you know you are in a predicament, then you can do something about it. However, finding the truth in business is difficult, especially as businesses don't like to hear bad news about themselves. You have to see yourselves as others see you. "The most reliable guide is the business's own customers," Leahy said. "Put your trust in them: they have no axe to grind and are more reliable than anyone else."

Setting audacious goals works. Tesco set itself the objective of being the number one choice in the UK, as strong in non-food as it was in food; in addition, it wanted to become a global leader in retailing. The company was also convinced it could crack services retailing and it has become a leader in the distribution of services as in goods.

In business it is tempting to talk about the "hard" figures – sales, finance and marketing targets. But Leahy said the soft side matters too.

Leahy: trust your customers to tell you the truth, and treat your competitor as the best consultant you will ever have

Tesco worked on that particular area for over a year, asking small groups of staff two questions: what do you think Tesco stands for? and what would you like Tesco to stand for?

Follow customers closely and you can find out how life is changing for them. If you can then be first to respond to a changing need, your business will reap the benefit and that is much better than being forced into a response by something your competitor has done.

Leahy said one mistake that organisations make is that they never write down processes and never match those processes to the jobs that people do. Often HR works independently. The key to getting things done is people, process, systems: repeat a task, scale it up and embed it.

While Leahy said that no one likes competition – competitors take away customers and try to put you out of business – your rival is the best consultant you will ever have. Always look for the strength in a competitor, see what they have learnt and do well. But the real secret is to learn from the competition quicker than they learn from you.

Leahy said that a business needs hundreds of leaders, ready to step forward and take responsibility. Leaders have an impact on people and can take you further than you would go on your own.

No end in sight to regulation anxiety

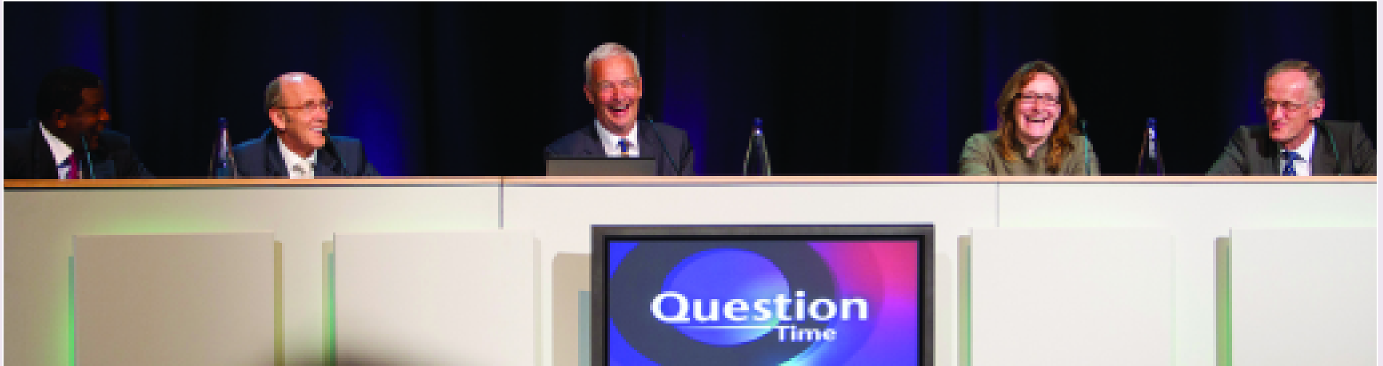
The regulatory agenda is packed and treasurers are just one among many professions that need to be aware of the issues. The conference heard that it was essential to be part of the strategic debate, but that debate had to take place at a global as well as a European and national level.

Barbara Ridpath, chief executive of the International Centre for Financial Regulation (ICFR), said the current regulatory uncertainty had to be put into context. Regulators are consulting on proposed rules so they can avoid unintended consequences. As a result, drafting the new rules is taking time, but Ridpath said that the current lack of certainty was better than the immediate imposition of regulation without consultation.

Angela Knight, chief executive of the British Bankers' Association, warned there was a real risk of regulatory arbitrage, as different regions of the globe implemented rules such as Basel III. Knight said the Far East was doing the minimum, the US wanted to get back to making money and the EU saw it as a way to enforce harmonisation.

Michael Kirkwood, non-executive director at the UKFI, the body looking after taxpayers' stake in the banks, said that the UK could not afford another bail-out, so it was essential that one outcome of the new regulation should be the removal of the implicit taxpayer guarantee. Kirkwood suggested that treasurers should consider how they would replace bank finance.

Opinions fly as debate hots up



Question time has become a regular fixture at ACTAC and this year's event maintained the high standard.

While the panel, chaired by broadcaster Jon Snow, agreed that the prospects for growth were muted and that governments had failed to produce an adequate industrial policy, there were still sharp clashes.

Mervyn Davies said that few lessons had been learnt from the financial crisis and that the levels of pay in investment banking were higher than they were three years ago.

Andrew Shelton, finance director of Rolls-Royce, said that banks seemed to have reverted to wanting to lend only to businesses that didn't need the money. He revealed that his company had put in place financial support for vital suppliers which could not access finance elsewhere.

Juliet Davenport, CEO of Good Energy, said availability of credit was key for companies in the energy sector. Growing a company in this sector was difficult and Good Energy had taken 10 years to build up its reputation to a point where credit became available.

However, Trevor Williams, Lloyds Bank Corporate Markets' chief economist, pointed out that the banks operate in a free market and the market pays people what it thinks they deserve.

The hub at the heart

The ACT's hub proved one of the most popular attractions in the packed exhibition hall at the Liverpool Auditorium and Conference Centre. Over the two days, treasurers, bankers and advisers visited the exhibition stands to catch up with new products and the latest trends as well as with old and new contacts. The ACT would like to thank all delegates, exhibitors and sponsors for making the conference such a success.

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Keep all your options open

Treasurers should always look at a range of funding sources, because they can never be sure which will be the most accessible when they actually need funds. Many of the old lessons still remain valid, as Rando Bruns, head of corporate finance – treasury at pharmaceutical and chemical company Merck, confirmed. He said it was important to prepare ahead of any potential transaction. Bruns has financed through both the loan and bond market, with a €4.2bn credit facility and a €3.2bn Eurobond.

Fred Maroudas, director of treasury at BAA, said companies should "be wary of banks and rating agencies bearing gifts". He suggested that there had been an "overexuberance" for securitisation in the Noughties and it was not appropriate for many with the requirement for a lengthy and complicated monthly due diligence exercise.

Maroudas encouraged treasurers and their companies to be open and transparent with the market and the media and to keep the message simple. Do that and you will gain the trust of a wide base of stakeholders, including investors, lenders and in some cases government. For treasurers perhaps the most important lesson is to stay liquid. Maroudas concluded by suggesting most of this sounded very much like the old normal.

How the new rules will bite

With a conference strapline of “risk, regulation and the recovery”, new rules featured in many of the conference sessions. The JPMorgan-sponsored track session specifically covered “planning for new regulation”, concentrating on Basel III and the regulation of over-the-counter (OTC) derivatives.

Chris Bates of law firm Clifford Chance provided the initial review of the new Basel III rules, noting the headline increase in capital requirements going from a 2% ratio (true common equity/risk-weighted assets) to 7%. But even this apparently massive change understates the real change, since the definition of what counts as capital is also being toughened and the risk weightings made heavier. What with the new liquidity requirements as well, the cost of bank lending is set to increase and its availability to decline.

JPMorgan’s view is that the rules will change the term structure of banks’ funding, with short-term deposit taking less attractive and a focus on longer-term debt view, creating competition for companies that will themselves be turning to the longer-term bond markets. Yet there are also signs that new liquidity will come forward. Even now new US investors are starting to appear; currently working in cooperation with the banks, they may in time disintermediate them.

The corporates on the panel were very much at the larger investment-grade end of the market and so have access to bond markets and a still enthusiastic group of banks. Yet even they had noticed that increased credit pricing was showing through in very long-dated FX deals. And banks were all differing in the extent to which they already reflected Basel III in their current terms.

Another significant regulatory change is the requirement for OTC derivative trades to be put through central clearing and therefore become subject to margin calls. It will probably only be the larger and more active non-financial companies that will be included, but, even those exempt will still find that the risk weighting pushes up the cost of derivatives. The shape of the markets will change too, with a reduction in the number of firms trading derivatives and perhaps more demands for bilateral collateral as banks try to minimise risk.

There was an acceptance that derivatives created a web of interconnectedness and potential risks but also exasperation at the heavy-handed approach. Margining simply changes a credit risk into a liquidity risk and, as Mark Morris of Rolls-Royce explained, banks are far better placed to handle that risk than are corporates. Catherine Flax, JPMorgan’s head of commodities, said that risky activities might simply be transferred to new sectors and new players.

Thoughts from the stage…

Matza: best ever annual conference

Over the past 12 months the ACT has done more – and better – of everything we do. To that long list can now be added the best annual conference the ACT has produced, full of debate and the exchanging of experience and new ideas and approaches to all manner of treasury management issues. A few examples come to mind:

- Listening to a panel session on cash and liquidity management and investment, numerous “hot topics” were raised. They included corporate deleveraging, global cash pooling, increased centralisation of cash and the re-emergence of in-house banks. That’s clear evidence that even in operational treasury there’s plenty on the treasurer’s plate. The session coincided with the launch of the third edition of The Treasurer’s Global Guide to Investing Cash 2011.
- A presentation of a ground-breaking retail-targeted bond issue by the John Lewis Partnership formed the core of a fascinating track session on alternative funding. Ian Fleming, group treasurer at John Lewis, kept the audience constantly engaged.
- A “standing-room only” workshop asked the intriguing question: I globalised my treasury, now what? It created plenty of animated debate around ideas such as performance measurement, increased use of technology for compliance and governance management, and ensuring independence in audit and valuations.
- The gala dinner in the Liverpool Cathedral was a tremendous occasion and thoroughly enjoyed by the largest number of people ever to have attended the conference dinner. The ACT is pleased to have been able to support a programme of improvements at the cathedral.

Most importantly, the whole conference showed everyone that while there are major challenges in the industry, there is a depth of knowledge and experience that will stand the ACT and its members, students and supporters in very good stead. I look forward to seeing everyone back in Liverpool for next year’s conference (17-18 April 2012).

Accounting revolution on the way

After a period of relative calm, a tsunami of accounting changes is heading treasurers’ way. According to Sandra Thompson, a PricewaterhouseCoopers technical partner, it will be a watershed as significant as 2005, when accounting transitioned to international financial reporting standards (IFRS).

One of the main changes will be in the area of financial instruments. Everyone, including the standard setter the International Accounting Standards Board (IASB), acknowledges that the current IFRS 39 standard is broken. Because IFRS 39 is such a big standard, the overhaul has been split into four areas: classification and measurement; impairment (which mostly affects banks); hedging; and netting.

However, before the standard comes into force for European companies, the revised rules have to be approved by the EU. And while some of the work is complete, the EU wants to adopt the work as a whole. Because the current IFRS is subject to a carve-out by the EU and gaining approval for the macro hedging element could take time, the new rules could be delayed until 2015, according to Thompson.

She applauded the way the IASB had listened to concerns over hedging and the frustration that hedges made for sound economic reasons did not qualify under the accounting rules. However, she warned that the sting in the tail was increased disclosure. The amount of information that companies will have to disclose is increasing because users say they want to know more about companies’ hedging and risk management. Thompson said that the IASB wanted to be seen to be listening to user groups.

Other significant accounting issues which treasurers will have to deal with are leasing and pensions.

Pension risk still looms large

The corporate stress on pension fund risk management is growing. But even though many companies are moving from defined benefit to defined contribution pension schemes, employers are attempting to ensure that employees can enjoy a good retirement, according to John Roe, head of strategic investment and risk management at Legal & General Investment Management. A key plank in this strategy is to ensure that individuals derisk, moving from equities to bonds, as they reach retirement.

Pension scheme buy-outs and buy-ins reached a peak in 2008. But the distress in the financial markets and regulation for insurers forced up prices on these products and so reduced appetite. In place of scheme buy-outs, Roe said companies were showing interest in longevity-only insurance; he predicted the next big trend in pension risk management would be tail risk hedging.

Alex Hall, group treasurer of ABB, suggested that pensions were at a crossroads, with defined benefit schemes having produced a golden generation of pensioners, the like of which we would not see again. He explained how ABB managed its pension schemes, pointing out that a holistic approach was needed. With such complicated risk management issues on the table, he questioned the role of trustees with little or no financial expertise in managing pension schemes. He suggested that within parameters companies should be left alone to manage the pension risk, especially where there was a strong company guarantee in place. Hall also suggested that companies should not be forced to pump cash into funds because of pension accounting rules based on mark to market; he said that a longer-term view was required.

In the panel discussion David Pollard, a partner with law firm Freshfields, said that the issue of pension risk had to be defined widely to include societal and political issues as government liked "playing" with pension issues. He believes that treasurers can still play a large part in pension risk management.

Overall, employers will continue to seek to reduce their risk by transferring it to employees.
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Growth lies beyond the seas

Stepping outside the conference hall to gaze at the River Mersey for any length of time, and delegates were likely to see a vessel of some kind carrying passengers or goods to or from Liverpool. The trading activity offered a suitable visual endorsement of the keynote speech by Scott Barton, chief executive, global transaction services, RBS.

It is widely acknowledged that business growth will not come from household spending. Instead, companies must look to export markets to exploit the demand that continues to grow in some areas, notably the fast-developing major economies of the BRIC nations (Brazil, Russia, India and China). Britain lags behind other countries in exporting to the BRIC markets. However, the renewed emphasis on private sector growth, combined with the 25% devaluation of sterling making the UK's exports more competitive, suggests that this may be the moment for many companies to sell into previously untapped markets.

Companies should seek help in attempting to trade overseas. With prospects such as Asia set to become the world's largest consumer spending bloc, the rewards could be substantial.

Passing the ethics smell test

Most treasurers who attended the session on treasury policy and ethics believe their companies have the right approach to business ethics.

While 14.8% said that was not the case for their organisation, and 5.6% were unsure, an overwhelming 79.6% said their business took ethics seriously. Most (75.4%) said it was not enough just to comply with legal requirements in this area, and 60% said that the issue was a CEO-level responsibility.

It is clear that ethics is a daily issue in treasury. Much of the recent focus on ethical behaviour has been on agents and payments of commissions. After a case study from Greg Croydon, group treasurer at IMI, on raising the profile of business ethics in the company, Tim Boxall, a partner at law firm Slaughter and May, outlined the UK Bribery Act 2010, which comes into force on 1 July 2011.

While corporate hospitality at Wimbledon will survive, the Act creates four distinct criminal offences: bribing another person, being bribed, bribing foreign public officials and failure of a commercial organisation to prevent bribery. On the last point, Boxall said the Ministry of Justice's guidance had been very helpful. The main element in ensuring that a company has adequate anti-bribery procedures is to assess six key principles: proportionate procedures, top-level commitment, risk assessment, due diligence, communication (including training), and monitoring and review.

A large part of compliance comes down to commonsense – what Boxall called the smell and the hindsight test. In other words are you comfortable with something (does it seem right and what would it look like afterwards, particularly if it appeared in the media?). These procedures should already be in place – the additional requirement is demonstrating their existence.

The panel discussion, chaired by ACT boss Stuart Siddall, looked at the issues. If a company's culture is to pay bribes, then it is but a short step from there to it being OK to doctor the accounts. This does have a financial impact: companies in certain sectors and operating in certain territories pay a premium on their cost of capital if they are seen to be vulnerable to a range of corporate governance issues including corruption.

THE PANEL

- **Philippa Foster-Back**, director, Institute of Business Ethics
- **Karina Litvack**, director head of governance and sustainable investment, F&C Management
- **Justin Welby**, dean, Liverpool Cathedral