At the heart of finance

INCOMING ACT PRESIDENT JAMES DOUGLAS TALKS TO **PETER WILLIAMS** ABOUT THE CHANGING ROLE OF TREASURERS AND THE ACT.

James Douglas, incoming president of the ACT, is a long-standing supporter of the association, with a deep involvement stretching back decades. Over 20 years ago he was running the ACT's London City Group (which met to discuss issues of common interest) while he worked at Barings. "It was just fascinating to come across treasurers and bankers working for different organisations in different roles, hearing about all the things they were doing and being able to compare notes on what was going on," he says. He saw the group as primarily an educational forum "stuck as I was in the dealing room, focused on a very narrow area of the derivative market".

He adds: "I have been lucky in that I have had a range of different jobs in banking, and the ACT has been incredibly helpful in giving me a platform for my career in finance."

Not surprisingly Douglas has seen enormous development in the ACT since he became involved: "Twenty years ago treasurers had a much lower profile than they do now. The credit crunch has elevated the importance of treasurers in the hierarchy of the organisation. To me, corporate treasury is about risk management and a lot of companies were found wanting during the credit crunch. A number of finance directors came under pressure due to financing arrangements not being as well defined as they might have been, resulting in companies running into liquidity problems."

Ironically, this has been good for the treasury community, as those treasurers who have managed risk effectively have added (and have been seen to have added) huge value to their companies. Their actions have not only contributed to their companies' survival but have also enabled them to prosper, often at the expense of their competitors.

"The treasurer has a huge value-add, helping with the implementation of the company strategy," says Douglas. "The credit crisis and the recession have made treasurers' lives a lot more interesting."

However, Douglas says he sees signs that the focus on treasury is slipping, and that CFOs are starting to become complacent as financing conditions have eased. "Treasurers definitely need to push the risk management theme and demonstrate how they can add huge amounts of value in good and bad times. In good times a smart treasurer can access financing at competitive rates and diversify sources of financing. In that way you are putting your business in a position where it can pursue the CEO's strategy and outperform the competition. In bad times a good treasurer ensures there is liquidity to enable a company to survive and gain market share at a time when others might fail."

AT THE HIP Douglas believes that the treasurer is often the best person to manage relationships with banks and bondholders but that the support of the CFO is critical. "The treasurer and the CFO should be joined at the hip when dealing with providers of finance, with the CFO relying on the treasurer's judgement on a lot of issues."

As global co-head of Deloitte's debt advisory team, Douglas works closely with treasurers and CFOs. He qualified as a chartered accountant with Touche Ross and left the profession when he qualified to join Barings. He says: "I had always wanted to go into the heart of the City into a training environment." He joined Barings' treasury and trading division, working in risk management, and after a year was transferred to the derivatives trading team.

"It was a whole new world, interesting and exciting," he says. It was during this time that Douglas first came into contact with the ACT and sat the MCT exams. "There are not many traders who are in their 50s. I could see it was a young man's game, so I did my ACT exams because I wanted broader corporate experience."

After six years at Barings he moved to ABN AMRO as a trader in derivatives, then marketing structured debt products and running the European derivatives sales business. This involved marketing "the whole gamut of complex debt and derivative products that sophisticated corporates and financial institutions use".

After three years working in Europe his next move was to Cazenove, at that time an independent corporate broker, to provide corporate finance and broking clients with debt advice. Cazenove ("fantastic on the equity side") had a small debt business where Douglas worked until 2005 (during which time Cazenove became JPMorgan Cazenove) when it became clear that the provision of independent debt advice did not sit naturally within an investment bank. Around that time Deloitte approached Douglas, asking him to set up a debt advisory team in the UK.

The professional services firm he rejoined was barely recognisable from the one he had left on qualification. Firms like Deloitte, he says, have grown diverse businesses capable of solving "just about any client problem". He adds: "Complex businesses need complex solutions and they need a broad set of skills independent of capital to deliver them, and this is where professional services firms excel."

He says this need became particularly noticeable during the credit crunch: "There were a myriad of complex issues where companies needed support and they turned to the professional services firms."

And those firms rely on professionally qualified staff to deliver. Douglas knows the part that the ACT qualification plays here. He says: "It gives you an insight into treasury issues and financial markets that you just cannot get from the accountancy exams. It is the most relevant qualification if you work in corporate treasury, banking or treasury consulting."

CHANGING MARKETS When The Treasurer spoke to the incoming president in late March he noted how much the markets had improved since the onset of the credit crunch in 2008. Douglas had a ringside seat of the developing crisis before it hit the UK.

His first involvement with the credit crunch was in the summer of 2007 restructuring structured investment vehicles (SIVs) that had invested in sub-prime mortgage assets, CDOs (collateralised debt obligations) and CLOs (collateralised loan obligations). Deloitte was appointed to work on a number of SIV restructurings to maximise return to creditors. "In 2007 to 2009 Deloitte probably sold and restructured about $25bn of structured credit assets," Douglas says.

He says his work on SIVs gave him an insight into the complex structured credit assets that many believe drove the financial crisis. "The SIVs were the straw that broke the camel's back. When they went wrong they precipitated the whole credit crunch.

"I remember giving a presentation at an ACT conference in January 2008, outlining how big this crisis was going to be. A number of treasurers I know moved cash out of money market funds as they became aware of the higher risks involved in some funds and they were very cautious about which banks received their deposits."

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But now a huge amount of liquidity is back in the market, banks are underlent and keen to lend to creditworthy companies and private equity firms. Corporates' ability to tap the bond market has reduced their reliance on the banks. Investors have turned to the bond market in a bid to find high yields in the low interest rate environment. That in turn has given banks liquidity as corporates have been repaying bank debt and at the same time central banks around the world have been injecting liquidity through quantitative easing programmes.

The result is a return to pre-credit crunch conditions in some ways: covenant lite deals are back in the US and expected to make their way across the Atlantic, and the price of borrowing for BBB credits has halved in the last year. But Douglas also points to clouds on the horizon, such as the sovereign debt crisis, tough capital rules for banks that will see them raising huge amounts of capital and increasing the cost of borrowing for corporates. Plus, of course, the small matter of £7 trillion of global corporate refinancing over the next three years, according to research by Deloitte.

So, a fascinating time to be president of the ACT, and Douglas is indeed excited about his year: "If I had to pick one thing which I am keen to achieve, it is to further enhance the ACT's image internationally. The association has great presence in the UK, and my predecessors have done a super job in raising its market profile. I am keen to see the ACT expand offshore so that it is recognised as one of the premier providers of quality education and training in finance."

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