Power, politics and practitioners

THE ACT ANNUAL CONFERENCE ATTRACTS DELEGATES AND SPEAKERS FROM ALL OVER THE WORLD. MORE THAN 1,000 CORPORATE TREASURERS, CORPORATE FINANCE PROFESSIONALS, BANKERS AND OTHERS CONNECTED WITH THE TREASURY PROFESSION ATTENDED THE CONFERENCE IN LIVERPOOL, IN THE NORTH WEST OF ENGLAND, IN APRIL THIS YEAR. **PETER WILLIAMS** PICKS OUT THE HIGHLIGHTS.

Economic power is shifting from the West to the East and this will have a profound impact on all regions of the world, including the Middle East. This transfer of economic influence is happening quickly and was one of the main points for discussion at the conference, where the topic was introduced by Haiyan Wang, managing partner of the China India Institute.

Wang forecast that by 2050 the GDP of both China and India would exceed that of the US. This shift brings both challenges and opportunities for treasurers and their organisations. China and India are fast-moving markets, and an entrepreneurial mindset is required to scale up at speed.

China's growth means that the internationalisation of the renmimbi towards becoming a reserve currency is simply a matter of time. However, the Chinese government will have to manage a change in its consumption model and give increasing economic power to domestic consumers. Will political change follow? Recent political scandals in China suggest there is a struggle between reformers and conservatives – the West is clearly on the side of reform.

As China and Brazil are both early stage markets, Wang recommended that corporates should take advantage by focusing on market development rather than just market share. It was a sentiment that would probably have been shared by one of the keynote speakers at the three-day ACT conference. Douglas Flint, an ACT member and chairman of HSBC, spends much of his time looking at the likely impact of regulation on his organisation, which has 7,200 offices in both established and faster-growing markets. He told the conference that the decisions taken by this generation of economic, financial and political leaders would have consequences for many years to come.

He pointed out they have to make the judgments today on how to move on from the worst financial and economic downturn since the 1930s against a background of an ageing demographic and lower than expected growth rates. But, "with interest rates in the developed world at record lows and with fiscal flexibility all but exhausted, the armoury to address the challenges is limited".

Flint acknowledged that austerity measures had limited popular support and took political courage and leadership to get them through. He said: "We have to recognise that political support is dependent inter alia on a belief that lessons have been learned from the recent crisis and the financial system is aligned with the real economy it serves."

Political pressure, said Flint, led to an implicit concentration on the benefits of regulatory reform for domestic operations, which is in reality a form of protectionism. For example, higher capital ratios result in home bias in branch-based organisations; for treasurers that means that funding availability from foreign branches will be at risk if the domestic operations are troubled or capital requirements are raised. And ringfencing raises the possibility that corporates will need more counterparties, fresh credit support annexes and a reassessment of counterparty strength.

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Flint characterised the current political/regulatory interaction as the "line of least regret". He explained: "Hindsight allows deception on both sides. We are convinced we really know what caused the problem so that we can justify actions to avoid repetition or justify no action because lessons have been learned. We fuel that self-deception by selectively pointing to events that fit easily into our view of the world."

Neither side wants to contemplate being asked why it did nothing to prevent another crisis – or alternatively why it turned the system upside-down at huge cost to address an event that did not occur or was less damaging than predicted.

The other keynote speaker was one of those people making the decisions that, according to Flint, will echo down the generations. Paul Tucker is the deputy governor of the UK's central bank, the Bank of England, and one of the favourites to succeed the present governor, Mervyn King. Tucker told treasurers that their companies had to "navigate a demanding obstacle course while the real economy rebalances".

Tucker, responsible for financial stability at the bank and a member of the Monetary Policy Committee, told the conference of the "compounding effect of the headwinds facing the financial system". Pointing to the increasing importance of bond market financing for large companies, he said that such companies "may, for the moment, be well placed to support the financing of smaller firms… but it is fanciful to entertain the notion that anyone other than the banking system can be the main backstop for working-capital finance".

He noted the historical role of bankers' acceptances in trade finance, and said he had wondered more than once whether a revival would be useful. But he added: "That is for you, as corporate treasurers, and bankers to pursue if you wish to."

Describing the process of putting in place better "rules of the game" for the financial system, Tucker said that "for all the measures in train… they will, I fear, eventually be found wanting". He noted that macro-economic policymakers and financial regulators have had to learn lessons: "On the one hand, we all need to be attentive to the effects that easy monetary policy globally can have on risk-taking behaviour. On the other hand, financial regulators cannot afford to focus exclusively on the health of individual banks and dealers as though they were isolated atoms… The FPC [Financial Policy Committee, in charge of monitoring the UK economy and liaising with similar bodies internationally] is about filling the space between monetary policy and microregulation. In an admittedly inelegant phrase, it deals with 'macroprudential' policy: policy that is focused on the resilience of the system as a whole."

As well as discussing financial, economic and monetary policy the conference also focused on the real issues that affect treasurers around the globe. The key issue for the past few years has been funding. But is that still the case?

In the ***talkingtreasury*** session, which was exclusively for corporate practitioners, the biggest issue seemed to be that corporates now have too much cash. What then should they be doing with it? Clearly, holding cash on anything more than a short-term basis is detrimental to weighted average cost of capital and the value of the business. If we are through the crisis, should we reduce cash levels? Do we need cash, or just certainty of funds? Should we be looking to avoid the cost and counterparty risk of carrying cash?

This was a recurring theme of the conference. In a later session, Andrew McLaughlin, group chief economist at RBS, listed it as one of his "make or break" factors for economic recovery, and asked what it would take to get corporates to save less and invest more. Should it be part of government strategy?

Another theme was how corporates deal with the growing challenges laid down by globalisation. In a session on future-proofing the treasury function for an evolving world, treasurers and bankers looked at the best way to react. The simple message is that when you have a global business you need a global treasury. But that does not mean you have to stop thinking local. Big corporates need to be aware of the different ways of doing business across the world, even in this global village in which we now live and work.

The conference finished in what has become traditional fashion. Every year sees a new host for the Question Time session and this year it was BBC broadcaster Jeremy Paxman. On the platform were four panellists: Trevor Williams, chief economist, Lloyds Banks; media adviser Heather Rabbatts; Peter Hahn, lecturer at London's Cass Business School; and Matthew Hurn, former president of the ACT and group treasurer of Mubadala Development Company, who made sure the concerns and the views of the Middle East were clearly stated and well represented.

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