



# NOTHING IS CERTAIN

At the ACT's Annual Conference in May, treasurers debated the big topics of yesterday, today and tomorrow. Sally Percy reports



Where will you find some of the finest minds in treasury mixing with futurologists, television presenters and bigwigs from the European Central Bank (ECB)? Nowhere except at the ACT's Annual Conference, which once again took place at Liverpool's capacious Arena and Convention Centre in May.

More than 1,000 delegates, exhibitors and speakers gathered for the three-day event where the themes were 'hindsight, insight and foresight'. Among the big topics that were discussed and debated were the eurozone, financial innovation and doing business in emerging markets. The highlight of the conference was the gala evening that took place in a spectacular marquee on the waterfront where guests were entertained by a band and the jaw-dropping exploits of nimble acrobats.

## HINDSIGHT

### Eurozone

Rio Tinto global head of corporate finance Jono Slade took over as ACT president on the first day of the conference. So

he introduced delegates to the keynote speaker, Ignazio Angeloni, adviser to the ECB on financial stability.

After confessing that he was a fan of Liverpool's best-known pop group, The Beatles, Angeloni shared his thoughts on whether the UK is likely to drift apart from its eurozone neighbours. He argued that the UK is well integrated with the eurozone since it trades more with Europe than the US. But he avoided answering a question from *The Treasurer* as to whether the ECB had mishandled the bailout of Cyprus in March.

Analysis of the eurozone crisis continued with Janet Henry, chief European economist at HSBC. Henry pointed out that despite the infamous 'whatever it takes' speech made by ECB president Mario Draghi in July 2012, the ECB cannot solve the crisis on its own. "It can't deliver the austerity, but what it can do is to provide the backstop for the governments and populations to put in place the measures that are necessary," she said.

The bailout of Cyprus marked three 'firsts' in the eurozone, according to Henry. It was the first bailout to bail in uninsured



The packed auditorium at the Liverpool Arena and Convention Centre



ACT president Jono Slade addressed the conference



ECB adviser on financial stability Ignazio Angeloni debated UK-eurozone relations

bank deposit holders, it was first to bail in senior bank bondholders and it was first to impose capital controls. She said the fact that capital controls had been imposed was “a consequence of the mishandling of the Cyprus bailout”.

Henry noted that the optimism in the financial markets this year had been helped by the “flood of central bank liquidity” from the Federal Reserve and the Bank of Japan, but that the underlying economic picture still remained weak.

### Corporate ratings and SEPA

Following the plenary events, delegates dispersed to their track sessions. In a discussion on corporate ratings hosted by rating agency Standard & Poor's, delegates learned about the funding challenges that mid-market corporates face and ‘creative funding options’, such as hybrid bonds, asset-backed lending and whole business securitisations. Blaise Gauguin, head of corporate ratings at Standard & Poor's, explained that an agency might rate a company above its sovereign if it believed that it would not default in the stressed scenario that was likely to follow a sovereign default. Roger Burge, director of treasury and corporate finance at communications infrastructure provider Arqiva, talked delegates through the company's whole business securitisation, the largest to take place in the UK outside the regulated utility sector. (For more on this, see page 48.)

The Single Euro Payments Area (SEPA) was the focus of a track session hosted by Bank of America Merrill Lynch. Tatiana Nikitina, cash and banking analyst at British American Tobacco (BAT), shared best practice and the lessons that the company had learned from preparing for SEPA. Her advice was to plan in advance, get buy-in from senior stakeholders and “communicate to as many people as you can”.

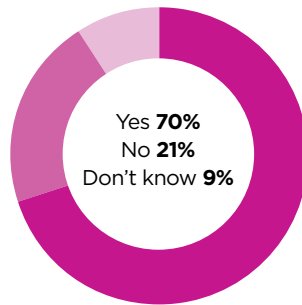
## INSIGHT

### Lessons from the banking crisis

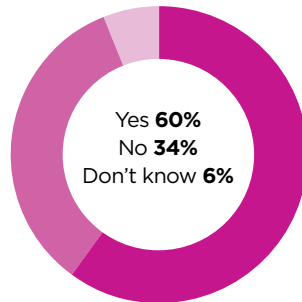
The second day of the conference kicked off with a thoughtful presentation from John Cummins, group treasurer of the Royal Bank of Scotland (RBS). He described how RBS had repaired its balance sheet in the wake of the financial crisis by lessening its reliance on wholesale funding so that deposits comprised 74%

## DELEGATE POLL

Will the euro survive?



Did treasurers put too much trust in banks?



of its primary funding sources in 2012, up from 53% in 2009. He explained that the bank's liquidity pool had grown from £90bn in 2008 to £147bn in 2012 and said that its reliance on short-term funding had dramatically reduced.

Overall, the UK banking sector was much stronger than prior to the financial crisis, said Cummins. It has more capital, while balance sheets are smaller and more focused. But he pointed out that strength came at a price, which was more regulation and increased costs of capital, funding and liquidity. He added that the Basel III rules on capital adequacy would pile the costs on even further.

Cummins emphasised that RBS is committed to rebuilding trust with its customers and investors as well as the general public, politicians and the media. It is trying to put its “legacy sins” in the past and make sure they don't happen again, he said.

### Financial innovation

Following on neatly from Cummins' presentation was a lively panel debate on whether financial innovation is a force for good or evil, which was hosted by Danny Witter, head of UK & Ireland corporate coverage at Deutsche Bank. The panellists examined the history of financial innovation from Babylonian loan contracts engraved in stone through to the 18th-century South Sea Bubble and the most recent financial crisis. Sir Richard Lambert, former director-general of the Confederation of British

Industry, argued: “Financial innovation is always good except on the occasions when it isn't.” But author Philip Augar said the era of “turbo-powered financial innovation” over the past 40 years had produced “some really awful results”. Then Keith Starling, CFO of Big Society Capital, talked about microfinance (providing finance to low-income clients), which he described as “a powerful tool for sustainable development”. The session finished with an audience vote in which 47% of delegates agreed that financial innovation had done more good than harm.

### The strategic treasurer

The strategic treasurer was the topic of a full track session hosted by Lloyds Bank. Yuri Polyakov, MD, head of financial risk advisory at Lloyds, told delegates that the global economy was “not out of the woods yet”. He said that although sentiment >



Author Philip Augar disputed whether financial innovation was a force for good



HSBC chief European economist Janet Henry said the underlying economic picture was weak



The ACT's 'pick 'n' mix' sweetshop returned by popular demand





The panel debated trends in corporate ratings

was strong, market indicators remained weak and so treasurers need a “flexible, comprehensive and accountable” risk management strategy with diversified funding sources. Bob Williams, former ACT president and regional FD at Barratt Developments, emphasised that when it came to managing risk, treasurers needed to know their business and how it fits into the economic cycle. “Do what’s right for you and not what the market tells you to do,” he said. Anne Coghlan, head of group treasury at Dyson, observed that treasurers need to know the basics – where is their cash coming from and how are their businesses positioned for the future?

Gavin Jones, deputy treasurer at retailer Royal Ahold, and Simon Morley, group treasurer at British Sky Broadcasting, described their cash-investment strategies in another track session hosted by JPMorgan. Meanwhile, Deutsche Bank led a track session that examined SEPA as a catalyst for payment efficiency.

**Emerging markets**

World trade volumes are set to grow by 86% over the next 15 years, delegates heard at a track session on the Southern Silk Road that was hosted by HSBC. But emerging markets present risks as well as opportunities. These risks relate to currency, industry and transportation among other considerations. Robin Terry, head of global banking corporate sales at HSBC, told delegates

**Colin Tyler @ColinTyl**  
If Draghi’s ‘whatever it takes’ July 2012 euro speech was worth an enormous amount of money, why did we not have it earlier? #actac13

**Colin Evans @Colinho63**  
SEPA issues such as tax, payroll, central bank reporting, misinformation are hampering confidence in the SEPA outcome in Feb 14. #actac13

**Kevin Molloy @kmlolloy**  
The strategic treasurer session is full to the brim! #actac13

**Deutsche Bank GTB @TalkGTB**  
Treasurer and risk manager Jesper Morgils: “Risk is also an opportunity... management of risk ensures you are here tomorrow.” #actac13

**Stephen Skinner @Skins62**  
If the medicine for the UK economy is bad, why doesn’t the chancellor change the prescription? #actac13



that regulations and treasury practices in Asia are constantly evolving, as are new liquidity techniques. He explained that in China it is possible to do “payments on behalf of” and invoice netting, while Malaysia offers substantial tax incentives to companies that set up treasury centres there. Jonathan Curry, global chief investment officer, liquidity, at HSBC global asset management, focused on money market funds in emerging markets. He said that although they have a higher risk profile than those in Europe and the US, their key characteristics are still security of capital and liquidity. In separate track sessions, delegates learned about gaining access to finance in the ‘new normal’ environment and the importance of integrating risk management into their business strategy.

The day closed with a series of workshops, roundtables and briefings on topics, including career development, hedging FX, de-risking pension liabilities and how corporates can benefit from running their cash and treasury management like a bank.

**FORESIGHT**

**Thinking for the future**

Futurologist Magnus Lindkvist gave delegates a different perspective on the world to come in the gripping opening plenary session of the final day. He also urged delegates not to let a surfeit of information cloud their long-term thinking. “We are prisoners of the present,” he explained. “Navigating the world by dramatic news headlines can send your mind astray.”

Planning for the long term in a changing world was a big challenge, Lindkvist acknowledged. “There is no such thing as foresight, only fore-guessing. Fifteen years ago, reading people’s minds was called black magic. Now we call it Twitter.”

He emphasised that planning for the future cannot just be based on transitional trends; it also requires transformational change such as technology. “Technology has gone from being expensive and



The exhibition hall was buzzing throughout the three-day event



Swedish futurologist Magnus Lindkvist told delegates they were “prisoners of the present”



Delegates asked thought-provoking questions

exclusive to being for everyone," he said. "We are most likely the last generation to believe that connectivity is special."

Lindkvist said there was no such thing as a singular future – there were only futures plural – and "unlearning" was at the heart of long-term thinking.

### Bank relationships

Is managing your relationship with your banks an art or a science? This was the hot topic at a lively track session facilitated by ACT associate policy and technical director Michelle Price.

Toby Shore, corporate treasurer and chief risk officer at Dubai Aluminium, told delegates that a relationship with a bank was like a marriage – it needed to be "managed and nurtured to achieve a mutual level of trust". He explained that Dubai Aluminium assesses its banks on a range of criteria, including flexibility on loan documentation, the range of facilities they provide, the cash management solutions they offer, their competitiveness on FX and their general responsiveness. "For us, bank relationship management is an art and a science," he said.

But Paul Stapleton, group treasurer at Irish utility company the Electricity Supply Board (ESB), said that he didn't believe in using scorecards to rate his banks. "Some things are better not measured with scorecards," he said. He explained that ESB has a formal bank relationship policy, which is approved by the board, and treasury oversees all conversations with banks across the group. ESB prefers to have long-term relationships with its banks and it has 13 core relationships banks in its revolving credit facility (RCF). "Participation in the RCF is the ticket to being a relationship bank with ESB," he said.

Jason Spanos, corporate finance manager at BAT, agreed with Shore that bank relationship management is both an art and a science. "For me, the science is in the qualification of the relationship," he said. Paul Phillips, group treasurer at budget airline easyJet, observed that whether bank relationship management was an art or a science would vary according to the individual company and its circumstances.

Another informative track session facilitated by ACT engagement director Peter Matza examined how treasurers can finance their company's balance sheet by using the right funding option. John Jackson, group treasurer at engineering company the Weir Group, talked delegates through its \$1bn bond issue on the US private placement market in February 2012.

So, after three days of examining the past, the present and the future, delegates departed from the conference having debated the big issues of the day, shared knowledge with their peers and enhanced valuable business relationships. Who knows what will have happened by the time we all meet again in 2014? ♥



Treasurers took to the dance floor at the waterfront gala evening



### QUESTION TIME

**Jeremy Paxman**, presenter of BBC current affairs programme *Newsnight*, presided over an animated Question Time debate that concluded the conference.

On the panel were futurologist Magnus Lindkvist, Andrew Macfarlane, the CFO of Aer Lingus Group, Trevor Williams, chief economist at Lloyds Bank Commercial Banking, and Becky Worthington, CEO of Lodestone Capital.

Discussing the eurozone crisis, Worthington predicted: "We could be on the brink of disaster in 12 months' time." Williams advised treasurers to factor in a eurozone break-up. "You'd be crazy not to," he said. "The risks are huge. The seeming calm on the surface is illusionary." Macfarlane suggested that the electorates in the eurozone might not put up with austerity measures indefinitely. "If Greece left and prospered, there would be a queue at the door," he said. "Austerity is good," Lindkvist argued. "We can starve out the old and something new could be born."

The issue was raised as to whether banks had really reformed following the financial crisis. "Banks have definitely learned their lesson," Williams insisted.

Worthington argued that regulation had been mainly forced on banks by regulators and regulation often hadn't been properly thought through – for example, liquidity had been squeezed out of the bottom of the market.

Another topic that prompted fierce discussion was whether quotas were needed to force large companies to appoint women to boards. Worthington said she was in favour of women taking more senior roles, but did not support quotas as they felt like tokenism. But Williams argued that quotas had worked effectively in Norway and were a good means of broadening the gene pool. Lindkvist claimed that change was already happening, saying: "Fifty years from now, this question will be, should we have quotas for men on our boards?"



Next year the ACT Annual Conference will take place in Glasgow from 14-16 May

Sally Percy is editor of *The Treasurer*