The year of the treasurer

DEBORAH THOMAS DISCUSSES JUST HOW MUCH VALUE TREASURY CAN ADD.

As the economic rollercoaster continues to plummet, this is a good time to reflect on the value that treasury can bring to a company, in all circumstances, but particularly now.

As credit remains tight (and some banks are shutting down lines almost indiscriminately), treasury has to be in the centre of the frontline within companies. The number of CEOs and CFOs spending ever more time with their treasurers continues to rise. For some this is an exciting, challenging time, for others it's hugely stressful. For some FDs, the reality has yet to sink in about current spreads and pricing but they will have to bite the bullet sooner rather than later. So how is treasury adding value in these volatile times?

CASH IS STILL KING The first area is liquidity. As always, cash is king and with bank lines being cut treasury needs to be even more on top of liquidity. Departments are achieving this not just through systems and pooling arrangements already in place but by improving the quality of information reported from operating units. It is a great opportunity for treasury to get all the stakeholders on side as everyone is focused on the bottom line, realising the importance of the quality of information reported as a key management tool. This allows treasury to educate the business units and instil best practice procedures going forward. There are still issues around pools of cash internationally but treasurers are becoming more creative in extracting and managing them, using current market conditions to their advantage (via tax regulation, for example).

Treasury has been involved in much greater due diligence around risk, including independent assessment of counterparties and tools such as money market funds, even if previously AAA-rated. There has been a loss of faith in the regulatory environment that has still to be addressed. Treasury has heightened its focus on risk assessment and the tools it uses and (if it hasn't already) is becoming more involved in insurance, pensions and working capital management, which includes closer liaison with internal credit departments around payables and receivables.

Foreign exchange (FX) presents its own share of challenges, with rate volatility and real issues over foreign debt even when there are matching assets on the ground (a particular issue with property). Treasuries are having to review policies with the current near-parity conditions, making long-term planning more challenging. With the pressure on the bottom line, hits from foreign exchange movements are even more critical. There have been real issues around debt issuance in foreign currency which are causing treasurers real headaches. Forecasting anything, even for the medium term, is proving difficult.

CARDS ARE ON THE TABLE Lots of war stories are circulating and market opinion can be fickle. Corporates criticised for being underleveraged a year ago now look to have made the wisest of decisions. Part of the reason Asia seems to be riding out this recession in better shape (so far) is that it was slower to gear up after the 1997-98 Asian crisis. Many corporates are relieved to have got their funding away last year at what looking back seems to be good pricing. Some FDs are still getting their head around why, with Libor rates so low (in theory), spreads are still so wide; but the volatility around liquidity and economic capital means normal market conditions have yet to resume.

In fact, current conditions are dictating a whole new behaviour pattern for both banks and corporates. There is a greater focus on the details of funding, particularly covenants, and the ability to make changes in the business or allow changes (for example, to share price) which do not automatically trigger default. The relationship between bank and corporate is a critical part of the negotiations with the cards on the table approach looking as if is gaining traction on both sides. The next few months will be a critical time for corporates as their bank lending is squeezed. There are a few companies now coming to the market with rights issues and their degree of success will be a telling marker of where confidence currently lies.

With the government needing all the help that it can get it would be great to see the chancellor of the exchequer forming a committee of group treasurers to offer timely and relevant advice on market conditions. It would provide the government with a valuable and alternative perspective.

This is a key time for treasury, with the opportunity to raise its profile even higher and really add to the bottom line. Now more than ever CFOs, CEOs and the board are looking to their treasurers to step up to the plate and deliver. So far, the feedback has been extremely positive from the former with regard to the contribution that treasury is making to the business. Whatever your company's position – cash-positive or debt-laden – there are opportunities to make a difference. This could be the year of the treasurer.

Deborah Thomas is responsible for senior treasury recruitment at Michael Page International.
deborahthomas@michaelpage.com
www.michaelpage.com