Adding value

REPORTING FROM THE *TALKINGTREASURY* CONFERENCE HELD LAST MONTH, **PETER WILLIAMS** OFFERS AN INSIGHT INTO WHAT REALLY INTERESTS EUROPEAN TREASURERS.

Executive summary

- At the *talkingtreasury* in Amsterdam in April treasurers gathered from all over Europe to discuss their response to the continuing credit crisis, strategic risk management and how treasury is an integral part of the business. The event was organised by the ACT in partnership with the Dutch Association of Corporate Treasurers (DACT). The fourth in the thought-leadership series was sponsored by JPMorgan Asset Management.

As *talkingtreasury* gathered in Amsterdam, there were reports in the Dutch press that Dutch banks were borrowing as much as possible from the European Central Bank, and that banks were asking corporates not to call on their existing credit lines. It was those sorts of events that are potentially impacting on corporate funding strategies. It is clear that in these uncertain times there are no right answers for treasurers. Unlike past crises such as Russian or Latin American debt market crises, the credit crisis has not been a single event. Instead it has been a series of self-reinforcing deleveraging events which can be divided into three main interrelated but distinct areas: an equity market downturn, credit turmoil and a short-term liquidity crunch. Securitisation has not vanished for ever and leverage will come back into the system, however, the timescales are unknowable. What is clear is that it took five to six years for leverage to build up in the system and so it will take more than a couple of quarters for the clouds to lift and the ramifications will be with us for some time to come. It is not clear what the outcome of the present write downs by the financial services companies and the subsequent capital raising will be. However, the present inversion of the cost of borrowing for the financial sector compared with the industrial sector will have to be corrected. There will have to be some normalisation so banks aren't borrowing at costs which are higher than they can lend on. There is an increasing pressure on policy makers and central banks across the globe and there has been an enormous flight to quality. But how will policy makers react? This period is characterised by a lack of consensus over what is likely to happen next. There is a lack of confidence in elements that had been taken for granted. For instance *talkingtreasury* discussed whether Libor as a benchmark for inter-bank lending meant anything any more.

IT IS CLEAR THAT IN THESE UNCERTAIN TIMES THERE ARE NO RIGHT ANSWERS FOR TREASURERS. UNLIKE PAST CRISES SUCH AS RUSSIAN OR LATIN AMERICAN DEBT MARKET CRISES, THE CREDIT CRISIS HAS NOT BEEN A SINGLE EVENT.

At the individual corporate level most have experienced a difference in accessing bank capital; the tap has been closed and banks have been asking whether treasurers were likely to draw down the funds allocated to them because they wanted to reallocate them. Deals such as securitisation are slightly more difficult but remain possible. Treasurers who have maintained conservative funding policies are currently reaping the benefit. They may have taken some stick for the approach when liquidity was plentiful but now their actions of having "liquidity back stops" look eminently sensible. It is clear that access to capital has been constrained for both banks and corporates and that clear and consistent communication between lender and provider is more vital than ever. The lack of external funding has turned attention to issues such as improving working capital management as a source of internal funding.

STRATEGIC RISK MANAGEMENT Risk management is becoming an extraordinary challenge for corporates. Risk management means

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talkingtreasury Amsterdam was chaired by Albert Hollema, VP Corporate Treasury of Numico and Chairman of DACT.

The session on the credit crisis was chaired by Huw Richards, Managing Director and Head EMEA Corporate Debt Capital Markets at JPMorgan. On the panel were Sjoerd de Vries, Group Treasurer of ArcelorMittal, and Jeroen Seyger, Group Treasurer of TNT.

The strategic risk management session was chaired by Jan Peter Hopmans, Group Treasurer of ANWB, with a panel of Frank van Es, Assistant Treasurer for Risk Management at LyondellBasell Industries; Alex Hall, Head of Capital Markets at ABB; and Georg Lambertz, Senior Vice President Group Finance at RWE.

The session on Treasury: An Integral Part of the Business was chaired by John Grout, Policy & Technical Director at the ACT, and on the panel were: Frits Kole, Head Affiliate Financing for Corporate Finance at Ciba; Ian Ladd, Group Treasurer of ICI; and Wiel de Schrijver, Vice President Corporate Treasury at Océ.

different things to different companies depending on the individual business model. While treasurers will have different responsibilities for enterprise risk management (ERM) it is correct to say that treasury contributes rather than being in the lead on this issue. A holistic approach to analysing risk has to be taken. In ERM one of the hardest tasks is to actually quantify the different risks you are faced with. A steep rise in commodity prices may impact costs but in another area of the business it could impact revenues positively which could offset the downside. The key to this analysis is the establishment and maintenance of good systems; everyone knows that rubbish in equals rubbish out. Treasurers have a unique understanding of some aspects of risk. A company may make a strategic decision for commercial reasons without considering an alteration in the risk profile. Moving its production from one territory it may introduce a new risk which the business units would need to be made aware of. For instance, if a company which has traditionally produced and sold its goods in the euro zone decides to move its production facilities outside its traditional currency zone in search of a lower cost base, it then has to set up or enhance systems and procedures for managing the newly created FX risk. This underlines the fact that business units understand the risks of the actual or physical markets in which they operate but they don't necessarily understand the related financial/paper markets. Treasurers do, and it is here in the ERM process that they can demonstrate their value both at business unit and at corporate level.

ERM should be related to shareholder value. A key question that should be asked is what is the risk if you fail to achieve the corporate's strategic goals, and one answer to that question is to define the risk in terms of earnings.

AN INTEGRAL PART OF THE BUSINESS The final session of the day looked at the financial strategy as a primary part of business as a whole, examining the key components and the treasurer's input. Treasurers should be involved in steering and directing the company and driving everything to do with finance. There is no one definition of the role of the treasurer, with tasks depending on history and the nature of the business. Questions of finance are fundamental to treasury; how does a business decide what to invest in, and how does the business raise the money to make those investments? The FD or CFO may advise the board on these questions but it is the treasurer who advises the FD, and in that sense the treasurer should be seen as a business partner. The idea of being a business partner may be a popular notion but it is often unclear what is meant by that and how treasurers – and others – should redefine the role in order to make that happen. It is clear that the treasurer can add more value in areas such as counterparty risk and procurement. There is an opportunity there but business units have to be aware of the skills and experience treasurers can offer – and how best to use them – while treasurers need to ensure they have the right structures in place in the treasury department so they can invest the time to make the idea of business partnership actually work.

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