Executive summary

- A devaluation of the rouble looks likely as the exposed Russian economy grapples with the downturn. More defaults, poor long-term funding and weak liquidity all present problems. Careful cash management, keeping up with changing market conditions and a robust funding strategy are key priorities.

MOSCOW HOSTED THE MARCH ***TALKINGTREASURY*** FORUM. **PETER MATZA** LISTENED TO THE MANY COMMON CONCERNS RAISED.

The fifth in the RBS-sponsored series of ***talkingtreasury*** forums and the 10th overall was the ACT's farthest eastward expansion in continental Europe. The event also marked the first occasion when we have employed simultaneous translation – all the preceding events have been solely in English. As a result, this report concentrates more on the themes and discussions of the day than individual comments.

The opening session concentrated delegates' minds on the impact of the credit crisis on the Russian economy, banking system and credit markets. The discussion was led by Boris Bruck, a leading figure in the emerging Russian Treasurers' Association and head of treasury at Troika Investment Bank. Overall the crisis in confidence has resulted in dysfunctional domestic money markets, leading to strong capital outflows that have increased the probability of rouble devaluation and forced external investors to sell rouble-denominated assets. Defaults have risen significantly and the expectation is for more defaults among second and third-tier borrowers in the near future, although the government has indicated that a number of essential businesses have been designated as strategic and will be supported if required. The dependence of prime borrowers on external access to funding remains high, and domestic market placements are possible only with infrastructure "private club" bonds.

A number of delegates said that the lack of long-term funding available in local markets would continue to present structural funding difficulties for corporate investment. Prevented from lending longer than 12 months, the Russian Central Bank is using a variety of other steps – for example, repo operations – to mitigate falling credit availability, but liquidity on the secondary corporate bond market has fallen considerably. The relationship between the oil price and rouble exchange rate further complicates central bank operations. The key messages for corporates from this session echoes

Treasurers' Russian glasnost

talkingtreasury events over the past 12 months in Dusseldorf, Stockholm, London and Dubai: real cash management is the essential lifeblood of business, and risk management – especially counterparty risk – needs consistent attention.

The next presentation was a case study delivered by Vladimir Alenichev, vice president and member of the management board of IC Russ-Invest, one of Russia's largest investment companies. His analysis of Russian economic prospects was gloomy and predicted serious consequences for corporate default rates. This position is compounded by various domestic legal problems including the complexity of bankruptcy proceedings, inconsistency of court decisions – especially in preventing holders of bonds from exercising embedded put options – and banks delaying bondholder cash interest transfers. Alenichev stressed that staying abreast of rapid changes in market conditions and having a robust funding strategy in place were key priorities for treasury and finance professionals.

The session that followed the networking lunch concentrated on strategic risk management. Amine Berraoui from RBS led a panel discussion on how treasurers can identify and manage their firms' exposures to a variety of financial and non-financial threats.

Vladimir Kozinets from the Rolf automotive group outlined its current approach to risk management. The crisis has caused numerous risk management issues even for Rolf's centralised treasury activities and Kozinets has had to address a combination of increased volatility and rouble depreciation affecting complex derivatives, causing hedges to become ineffective for IFRS, leading to EBITDA movements and covenant breach. In particular, he identified a lack of technical financial understanding by tax authorities and auditors.

A contrast was provided by the Evraz steel and mining group, which has operations across Russia, the EU, North America and South Africa. Despite considerable foreign exchange exposures – as well as financial price risks in steel and coal production – the company board has so far decided that hedging costs outweigh potential benefits and they will manage their business on a "reversion to the mean" view for commodities and foreign exchange.

The impact of the credit crisis was addressed in some detail in a presentation from Elena Anankina, from Standard & Poor's. She stressed that the main reason for the difficulties in corporate credit was a lack of liquidity stemming from the relatively short-term nature of the funding markets in Russia, the inability of commercial banks to meet current demand and the fact that capital markets in Russia are effectively closed. In S&P's view, further corporate defaults are inevitable: the state cannot bail out everybody and state-owned banks tend to focus on higher-quality borrowers. Some delegates questioned the role of ratings agencies but most agreed with Anankina's conclusions.

S&P sees institutional weakness as the key risk that Russian companies – and therefore credit analysts – face, created by:

- an uncertain regulatory and legal environment – a lot depends on personal or group interests;
- weak corporate governance and control; and
- informal and non-transparent financial arrangements (difficult to assess and monitor properly).

The day's final session concentrated on the changing role of the corporate treasurer and how the value of treasury management is communicated to management, investors and other stakeholders.

Discussion centred on the measurement of treasury added value and the various methods adopted by different companies. Some, such as comparing credit spreads for companies of a similar size and nature in the same sector, are easier to implement and promote; other, more complex measures might be needed to take account of the risk appetite of the company to establish clear objectives against which performance could be measured. Operational services also offer opportunities to implement efficiencies and make cost savings across business processes and these should be relatively easy to benchmark from one company to another.

Pavel Ilichev, CFO of the Eurosib group, emphasised the need for a good flow of information and good controls. Further, treasurers should be in a position to expand their influence within their organisations because of their grasp of these management tools.

The success of ***talkingtreasury*** in Moscow once again amply demonstrated that treasury practitioners everywhere share many of the same concerns and issues, and that sharing the knowledge and experiences of their peers is invaluable in addressing common problems and creating common solutions.

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