AT THE ACT'S ANNUAL CONFERENCE IN LIVERPOOL THIS APRIL, A PANOPLY OF DEBATES ADDRESSED THE KEY TREASURY MANAGEMENT ISSUES FOR THE ONE THOUSAND-PLUS TREASURERS AND CORPORATE FINANCE PROFESSIONALS WHO ATTENDED, AS THE REPORTS IN THESE PAGES DEMONSTRATE.

Following the line of least regret

HSBC's chairman told the conference that the decisions taken by this generation of economic, financial and political leaders would have consequences for many years to come.

Douglas Flint, an ACT member, said those leaders had to make the judgements today on how to move on from the worst financial and economic downturn since the 1930s against a background of an ageing population and lower than expected growth rates. The problem for policymakers, he said, was that "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 that it would take 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."

Flint (left): government's fiscal flexibility all but exhausted

Political pressure, said Flint, had an implicit focus on the benefits of regulatory reform for domestic operations, which was in reality a form of protectionism. For example, higher capital ratios lead to domestic bias in branch-based organisations and funding availability from foreign branches could be at risk if a company's domestic operations are troubled or capital requirements are raised. And ringfencing raises the possibility that corporates will need more counterparties, fresh credit support annexes (CSAs) and a reassessment of counterparty strength.

Flint characterised the current interaction between politics and regulation 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 they did nothing to prevent another crisis, or alternatively why they turned the system upside down at huge cost to address an event that did not occur or was less damaging than predicted.

A global business demands a global treasury

Treasurers must react as business becomes ever more global, was the message of a conference session on future-proofing the treasury function for an evolving world.

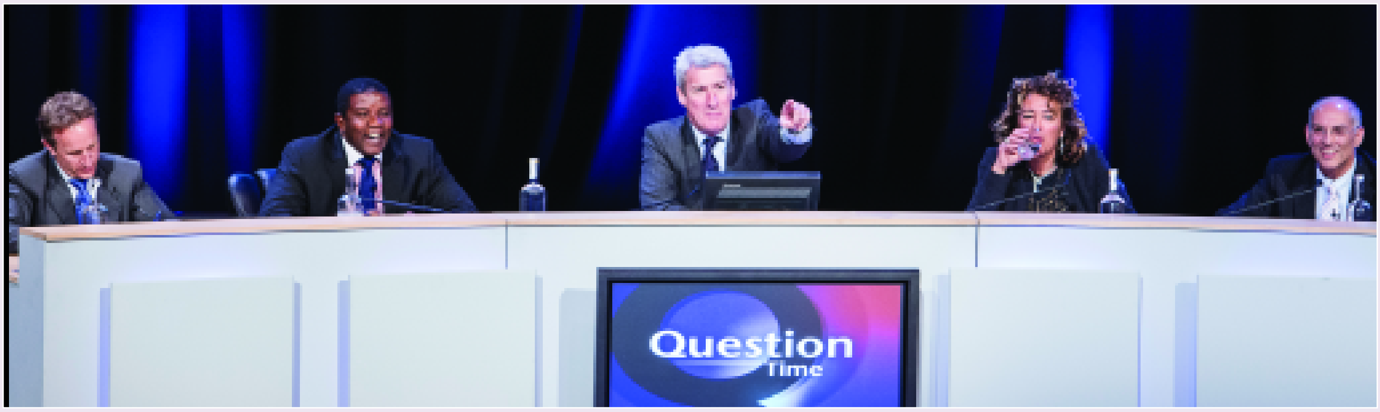
When you have a global business you need a global treasury, so Lesley Flowerdew, tax and treasury director at Atkins, looked at centralisation versus decentralisation in a global business. Whatever individual business units need, treasury policy and processes will always be determined at the centre, and Flowerdew explained how Atkins had set up cash pools giving greater visibility. In a cash-generative business, control of that cash helps to finance growth in all areas of operations.

As part of this process the engineering and design consultancy has been consolidating its banking partner group, with technology a strong factor in determining which banks to work with, although bank strength is clearly vital too. Because Atkins often needs to move quickly, it needs its banks to do the same. When a global business chooses its banking partner, the bank's geographical diversity should match its requirements, as in some areas banks will be operating through respondent offices.

Aidene Walsh, head of GTS, UK and Ireland, RBS, looked at the drivers of change which global treasuries were facing. She said an RBS survey of the working capital management priorities of treasurers had found that (in descending order of importance) they were most concerned about risk, liquidity, automation and centralisation.

She agreed that technology would continue to be a big driver of change, that electronic invoicing would become viable and that the Single Euro Payments Area (SEPA) would simplify the work of payment factories, which are spreading as far as China.

TV Rottweiler keeps pack in order



The ACT annual conference finished in what has become traditional fashion with a Question Time session. Every year sees a new host for the session and this year it was BBC Newsnight's take-no-prisoners anchorman, Jeremy Paxman.

On the platform were four panellists. Matthew Hurn, former president of the ACT, and Trevor Williams, chief economist at Lloyds Bank, are faces well known to treasurers. They were joined by media adviser Heather Rabbatts and Peter Hahn, a lecturer in the faculty of finance at Cass Business School.

The tone for the session was set from the off by Paxman. He advised the audience: "Keep your questions pithy, and the ruder the better – it's worked for me."

It was not perhaps advice that was always followed by those who posed questions but it was still a lively session, with discussions ranging over the future of the euro, the potential monetary policy of an independent Scotland, the role of government, consumer confidence, the role of the media in the popular psyche, sources of growth, youth unemployment and training, why corporates aren't spending their cash piles, the advantages and disadvantages of the world speaking English, US presidential elections, Euro 2012, and, perhaps inevitably, when the panellists had last consumed a Cornish pasty. On the last question, the answers were not always 100% transparent.

China flies the world growth flag

China is no longer an emerging market, but a growth market like the other BRIC economies of Brazil, Russia and India, according to Anna Stupnytska, macro-economist with Goldman Sachs Asset Management.

Stupnytska told the conference that China could add $8 trillion to world GDP in the decade 2011–21, assuming an average of 7.5% growth a year – by no means a miracle condition. That's two to three times larger than the GDP addition the US is expected to contribute.

Stupnytska added that no euro zone country would make the top 10 for additions to world GDP over the decade, although the UK would – but only just.

All this means that companies should be looking to access the opportunities for growth in China. And those opportunities are changing. For instance, with the emergence of the Chinese consumer, companies in China are not just manufacturing and exporting but are starting to sell product in the country itself.

In a panel discussion chaired by Kathleen Hughes, managing director and head of global liquidity sales at Goldman Sachs Asset Management, the issues in doing business with China were explored. Despite the country's economic size and the emergence of a domestic consumer ready to spend, challenges still exist.

The capital markets still need demystifying; and raising funds onshore is difficult as the regulators are presented as infallible, so the idea of a bond default simply cannot be envisaged. However, the renminbi bond market in Hong Kong is an attractive proposition due to trade flows and the increasing convertibility of the renminbi.

But the legal, regulatory and cultural challenges go beyond the capital markets. One contributor suggested it was easier to remit dollars from China than renminbi. The panel agreed that companies should not underestimate the amount of documentation and regulation that has to be overcome and how time-consuming this process is.

The conference heard that companies with operations in China agreed about the importance of building relationships. Employing local staff who can be a company's eyes and ears on the ground and who can understand and explain the local culture is an absolute must.

Local staff also need to understand group policies and practices. For instance, one company had set up natural hedges by paying in dollars, only for local staff to unwittingly undermine the practice by paying in renminbi in return for a discount.

Many businesses still have to or choose to work with Chinese partners and it is important that all parties in a joint venture share the same goals. It is crucial to continually ask questions in a bid to understand the issues. The same questions should be put on a regular basis because the answer may change often.

But while there are differences and language still presents an ongoing barrier, it is essential that companies keep checking the key principles. Goldman Sachs, for example, has to ensure that any market it enters is deep and has liquidity. All other businesses need to be equally clear about their key principles as they set out to explore the opportunity that is China.

Look to banks and beyond for M&A funds

Banks still have a major role to play in acquisition financing but many companies may look elsewhere for their other strategic needs, according to David Wilson, treasury project manager for packaging company DS Smith.

He suggested that banks or cash were the most viable route for acquisitions, but that treasurers still needed a clear view of the role of the debt capital markets and a strong grasp of how debt interacted with equity.

He recalled his company's acquisition of the SCA packaging business, which involved looking for €1.6bn in financing, a third of which was to come from equity. The starting assumption for the company was that the funds would come from high-yield bonds, but Wilson said there was then a second thought: why not ask the banks? And ultimately the banks delivered.

The finance for DS Smith to acquire SCA consisted of a €300m bridge, a €400m four/five-year term loan, £342m cash and revolving credit facility (RCF) plus £466m through an equity rights issue 98.6% subscribed.

Thomas Neidert, group treasurer of Qiagen, explained how the financial structure of the bio-medical company had evolved over the years. Acquisitions for Qiagen have become a way of life, with the company spending near $2bn altogether in cash since 2003 on acquisitions.

If a business is acquisitive this needs to be reflected in the financing structures. Neidert said straight equity had been great while the company was in growth mode, but the required return on equity did pose some questions.

Echoing Wilson, he added that bank debt was a must in every corporate financing structure. Treasurers need to know their relationship banks and ensure that their bankers know them. And documentation had to be structured to reflect the needs of the business.

All a-Twitter

The Twitter feed was an amusing addition to this year's conference. Giving a running commentary on what was happening, those who contributed to the Twitter stream ensured that the important and the not so important could be duly noted by those in the conference hall and further afield.

Catch up on the ACT Twitter feed at #actupdate

Bank juggles as treasurers dodge

Tucker: headwinds affecting the financial system make rebalancing the real economy even harder

The deputy governor of the Bank of England told treasurers that their companies had to "navigate a demanding obstacle course while the real economy rebalances".

Paul Tucker, who is 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 that 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."

Tucker also described the Bank's secured commercial paper facility, which was launched a couple of years ago. He said that while invoice-based financing by banks had increased, take-up of the Bank's facility had been limited, although it remained open.

But while important, he added, improvements in working capital finance were insufficient. "For longer-term finance, I hope that businesses and the City can work together to broaden access to the corporate bond markets."

Outlining various initiatives already under way, he revealed that "securitisation might even play a role", but emphasised the importance of learning the lessons from badly designed securitisations in the past. "Sadly, the repair of the credit system will take time."

Describing the process of putting in place better "rules of the game" for the financial system, Tucker warned that "for all the measures in train, they will, I fear, eventually be found wanting." The Bank's Financial Policy Committee (FPC), he said, was "the body charged with being on the case".

He noted that both macro-economic policymakers and financial regulators 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 is about filling the space between monetary policy and microregulation with – in an admittedly inelegant phrase – 'macroprudential' policy: policy that is focused on the resilience of the system as a whole."

Economy toils against headwinds

Don't expect too much from the economy in 2012, the group chief economist of RBS, Andrew McLaughlin, has warned. Despite the title of his talk, "2012: make or break for the UK economy?" he said the UK would experience neither success nor failure this year.

The country has to confront three main issues: what kind of global recovery are we experiencing? what is the UK economic strategy? and will corporates start spending? The 4% global growth figures are close to the historic trends, but, as McLaughlin observed, in the UK it feels like most of the growth must be happening elsewhere.

The idea is for the UK to export itself to growth but as 80% of UK exports go to developed countries which account for only 20% of global growth, the exporters are, in McLaughlin's words, "fishing in a shallow pool".

The source of momentum in advanced economies is coming from the expansion of central banks' balance sheets as they try to replace the shrinking balance sheets of consumers and companies. The policy is working up to a point as it has removed the worst fears over what bankers like to call the tail risk. Indeed, there has been some improvement in risk appetite and the US has been adding jobs "at a reasonable clip".

Overall, McLaughlin concluded that while the Draghi put (the practice by ECB boss Mario Draghi of making unlimited loans to banks at low interest rates) had been reasonably successful, it could not promote recovery nor avert recession.

Indeed, the best example of the effect of quantitative easing is the UK. The country has experienced a slow and protracted recovery, avoiding a deep and prolonged recession. To put "protracted" into context, McLaughlin said it could take seven years for the UK to regain the output lost in its recession. To put it another way, it will be 2015 before the country recovers the standard of living it enjoyed in 2007.

This has to be seen in the context of the banking sector, where a "ghastly overreach" led to everyone paying a terrible price. McLaughlin said that the banking sector was being repaired "at a rate of knots", and its health was essential to returning the economy to growth in the long run. However, fixing the banking sector has created a headwind for the economy, hence the anaemic recovery.

McLaughlin dismissed the idea that the UK government did not have a strategy for economic growth. He said the government had both talked and acted tough in terms of fiscal restraint, which was helping to avoid a rating downgrade. And while the strategy of low interest rates might be horrendous for savers, like democracy, it is better than the alternatives.

Equally, low interest rates are part of the government's economic strategy to keep sterling competitive. The currency fell precipitately early on in the crisis and has stayed there since. McLaughlin said its value looked fair and "pretty range-bound".

The promise of cuts in both corporate and personal taxes, along with radical reform of the planning system, underlines the message of jam tomorrow for risk takers.

One element that helps puncture the gloom has been corporate balance sheets. Cash balances have never been higher because capital expenditure has never been lower.

The government hopes corporates will spend more, but regular surveys of investment intention show muted enthusiasm. But the government has high expectations of corporates: it wants to see exports double in the next decade. That means creating new products and services and would represent a huge supply-side effort.

On the exhibition floor

The exhibition at this year's conference was the biggest and, dare we say?, the best yet. In between the conference sessions delegates could see all the latest products that the increasingly sophisticated treasury market had to offer. And this year for the first time there was a seminar theatre running alongside the exhibition.

The ACT would like to thank all the delegates, exhibitors and sponsors for making the ACT Annual Conference in Liverpool such a success.

Co-lead sponsors: Deutsche Bank, HSBC, RBS

The delegate's view

SARAH CLARKE MCT FOUND THE ACT ANNUAL CONFERENCE TO BE AN EXHILARATING EXPERIENCE.

Anybody got a crystal ball? I thought not. Uncertainty is the name of the game nowadays, and there was no shortage of diverse opinions at the ACT Annual Conference on all matters from the future of the euro to the economy.

My reasons for attending the conference were probably similar to most delegates – I wanted to connect again with old contacts, meet some new ones, and generally update my knowledge. I have taken a career break after redundancy three years ago. Prior to that I was group treasurer of telecoms and IT company KCOM for 10 years, and the world is now a very different place to do business in.

A key theme of the conference was the economic shift from West to East. Haiyan Wang, managing partner of the China India Institute, forecasted that by 2050 both China and India would have a bigger GDP than the US. This 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. As they are early-stage markets, Wang advised corporates to focus on market development and not just market share development.

Not so long ago the biggest issue for treasurers was availability of funding. In the ***talkingtreasury*** briefing, 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 any 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, then? 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 of RBS listed it as one of his "make or break" factors for economic recovery. He asked what it would take to get corporates to save less and invest more. Should it be part of government strategy?

The main conference sessions tended to look at the wider economic picture, and the breakout sessions and workshops went more into the detail and specifics required by treasurers, with a number of case studies. These covered topics such as corporate funding, managing risk, pensions, the future of treasury, investing cash, supplier finance, ratings, regulation – to name just a few.

The only problem was deciding which to go to, particularly with the workshops, where there was a choice of a dozen going on at the same time at least 10 of which were relevant to most corporate treasurers.

The conference was a great opportunity for treasurers to meet key suppliers. The sponsors and exhibitors included banks, asset managers, technology providers, rating agencies, recruiters and advisers. There were also many networking opportunities to meet other treasurers – the highlight being the ACT gala dinner, which was held in the amazing Liverpool Anglican Cathedral.

Treasurers often work alone or in small teams, and are expected to be experts on a wide range of technical issues. The conference provided high-quality, intensive training coupled with focused networking, and is an essential way for treasurers to keep their knowledge up to date and to build a support network.

If I want to issue a retail bond or convertible bond, implement a treasury system or move to complex cash pooling, I now know a treasurer I can ring up for unbiased advice. Attending the conference may mean three days out of a busy schedule, but treasurers can return to work to be more effective and ready to add even more value to their organisations.

All in all, the conference was a huge success and I would like to congratulate the ACT on staging an event that was incredibly well organised and well thought out.

I'm not sure about the conference slogan of clarity in a complex world – I think that there is still far too much uncertainty around to be able to get much clarity – but we were definitely shown the opportunity.

Next year's conference is 29 April to 1 May 2013. If I've got any advice for treasurers wondering whether to attend, it's this: go!

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