

# THE VIEW FROM ASIA



At the ACT's Asia Conference, treasurers debated Chinese economic growth, risk, strategy and funding options. Peter Matza reports from Hong Kong

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This year, the ACT has added conferences in Asia and Europe to its suite of flagship conferences that already take place in the UK and the Middle East. The Asian event, held in Hong Kong on 18 March, got the year off to a spectacular start. It attracted around 250 registered delegates and more than 180 attendees, suggesting that the corporate treasury profession in Hong Kong, and regionally, is in excellent health. Indeed, the debate and discussion it provoked proved that point many times.

If the conference had a general theme, it was that in a city and region that has been the living embodiment of economic change for decades (in Hong Kong's case, more than 160 years), that change has been accelerated over the past few years with the rise of China on the world stage. But what is keenly felt in the rest of the world is lived, breathed and consumed in Hong Kong. So the questions on everyone's minds relate to the 'What ifs'.

What if the Chinese economy slows? What if the gentle move towards political liberalism is delayed? What if the Bank of China loses control of domestic credit?

### Chinese economic growth

Tai Hui, chief market strategist, Asia, for JPMorgan Funds, examined these questions in his opening presentation. In his view, the risks to Chinese economic growth have been overstated, although financial authorities are being increasingly active about managing the shadow banking system and credit provision. But Hui felt that China's low level of government debt would act as an effective counterweight to those fears. He added that, as China continues to grow, we should see increasing numbers of Chinese tourists spending their disposable income around the world. This is particularly good news for the treasurers of companies in the consumer goods, hospitality and transportation sectors.

James Lee MCT, regional director – Greater China, ICAEW, gave an entertaining presentation that addressed the impact of global and regional regulation on the real economy and corporate treasurers. In Lee's view, poor regulation is much worse than no regulation. He suggested that the Chinese way of doing anything that is not explicitly prevented might have some merit. He also regretted being a treasurer, not a lawyer, when he considered how much lawyers earn to redraft the laws they drafted in the first place. More seriously, Lee felt that the core purpose of the corporate treasurer is to manage the confidence that an organisation's financial partners have in that organisation. Wise words. And he commented favourably on the Chinese domestic economy, suggesting it is being used as a test bed for financial services ideas, especially in consumer finance and savings products, since innovation is a feature of Chinese economic development.

The impact of China's economic rise has its most obvious manifestation in the emergence of the renminbi as an international and, potentially, a reserve currency. As yet, there is somewhat more talk than action. Delegates heard from Carmen Chu, executive director (external) of the Hong Kong Monetary Authority. She explained that up to 40% of Japanese trade is conducted in yen, whereas less than 15% of Chinese trade is settled in renminbi. Chu argued that offshore and Western companies could expand their supply chains in China by offering to settle in renminbi, especially when doing business with less sophisticated domestic Chinese companies. The reverse position for companies selling into China is that, although there is not yet open capital currency movement, there are increasing opportunities for offshore companies to use onshore funds offshore. Tony Lam, Asia treasurer at automotive company Valspar, reinforced this point in his presentation that addressed the various ways of using onshore liquidity. But he suggested

it is to have a structured treasury policy, regular and clear reporting, and consistent input into financial and business strategy (more on that later).

Delegates were able to choose from a selection of presentations and panel discussions that focused on either corporate finance and funding for M&A activity, or driving operational efficiencies in cash management. In the context of operational efficiency, Nick Soon, regional treasury manager, Singapore, at British American Tobacco, emphasised the importance of evolution. He argued that treasurers and organisations must constantly seek improvements in policy, in the procedures that underpin workflows and in the processes for effective execution. Brendan McGraw, treasurer of CLSA, one of Asia's largest independent brokerage and investment groups, spoke on the challenges of cross-border pooling in Asia. CLSA has recently completed

## ACT EUROPE CONFERENCE

The new ACT Europe Conference will take place in Düsseldorf on 26 June 2014, bringing together treasury expertise from across the continent

preservation (or accumulation) of financial strength. That should help when the CFO walks in unannounced and asks for money for a surprise acquisition, he noted.

In the discussion that followed, the panel (of treasurers, a banker and an academic) addressed the treasurer's role in understanding the options for different funding scenarios and conveying them clearly to executive management. How do

treasurers balance the risk and cost in supporting an M&A transaction? Should they pre-fund? What about the interest (or FX, if important) rate position and how should they decide on the range of tenors for funding?

The conference closed with two insightful and challenging presentations on strategic risk management. Paul Travers, president of the Finance & Treasury Association (the Australian national treasury association) argued that for treasurers to successfully influence financial strategy and policy, they must work *in* the business and not *on* the business by understanding real, continuing risks – not the noisy or closed-end ones. (For more, see <http://tinyurl.com/lgks9s8>.)

Travers was followed by Stephen Tang, CFO of a family-owned SME that acts as a distributor and wholesaler for European gas and oil burner manufacturers in China. His key message related to the importance of preparing for risks. Tang explained that it is essential for treasurers to stress-test their organisations against a wide range of mainly financial risks.

Delegates reacted enthusiastically to the conference, which they found engaging and informative. For the ACT, the event proved an invaluable way to connect with treasurers in Asia and learn about the challenges and opportunities for companies in the region. Together with the Hong Kong Association of Corporate Treasurers, the ACT will look to build on the success of the conference to further enhance the profile of the treasury profession in Asia. ♦

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treasurers should proceed cautiously, since there are regional differences in China in terms of how the relevant regulation is applied and understood.

### Strategy and operations

A panel discussion on the strategic role of the treasurer suggested that, although treasurers have successfully adapted to the post-financial crisis world, good practice requires them to be consistently dynamic in their roles. In particular, the challenges of managing stakeholders, giving closer support to the operations teams within their businesses, and working through regional differentiation in financial services regulation, are all high on the 'to do' list. Alan Drew, director, international treasury, Tesco, stressed that, given the level of investment the supermarket giant had made in the region, it made perfect sense for his team to be based in Hong Kong. Interestingly, he also runs Tesco's European treasury operations from Hong Kong, a task that is made easier by the fact he also has support from the Tesco head office in the UK. The point of being close to the business was well made. The panel also considered interaction between the treasury team and board, and how critical

a treasury project that has resulted in a number of 'wins' for the treasury team. These include significant reduction in external interest expense (though not all from pooling), some effect from better borrowing techniques and cost savings that offer significant operating leverage to the business. The clear message from McGraw was that treasurers must be an integral part of the financial and business strategy to achieve these efficiencies – 'ivory tower' treasury is dead.

The panel discussion that followed concentrated on operational exposures in areas such as the quality of cash forecasting, trapped cash and distribution, how relationship banking is changing and, of course, the renminbi.

### Funding and risk

In the stream on corporate finance, Francis Ho, director of group treasury at electric company CLP Holdings and president of the Hong Kong Association of Corporate Treasurers, looked at balance-sheet funding from the perspective of a major power utility. Ho's advice to treasurers was to centre on sustainability – concentrate on the key drivers of the business and focus on financial discipline and the



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