PETER MATZA AND **JOHN GROUT** REPORT ON THE TOPICS DISCUSSED AT THE LATEST ***TALKINGTREASURY*** CONFERENCE.

Finding time to reflect

Executive summary

- **The seventh *talkingtreasury*, sponsored by RBS, in the ornate and gracious Hotel Grand in Stockholm, basking in autumn sunshine, was as well attended and thought-provoking as its predecessors. The *talkingtreasury* events are exclusively for corporate treasurers.**

There is no doubt that with increased pressures on time and resources there also comes a need for treasurers occasionally to step back, pause and reflect on key strategic business and management issues. ***talkingtreasury*** offers the opportunity for different organisations to share their approach and experiences in treasury and to generate some lively debate both in the working sessions and during the networking breaks. This year's conference in Stockholm was no different, but meeting at a time of crisis in markets made it all particularly useful.

Broadly speaking, three main themes dominated all the conversations.

- liquidity management;
- relationship management; and
- risk focus.

LIQUIDITY MANAGEMENT While the need to have cash in the bank appears paramount in the current climate, the issue of liquidity is much wider and deeper for treasurers. It encompasses elements of control (of payments and supplier credit, customer credit, capital and revenue spending, and treasury flows) as well as relationships with management (operating units, budgets and the planning process) and credit providers.

THE IMPORTANCE OF TREASURERS BEING ON THE FRONT LINE OF THEIR BUSINESSES AS WELL AS BEING INVOLVED IN THE OVERALL STRATEGY AND PLANNING CAME UP TIME AFTER TIME.

It may be that prudent treasurers spent the years between 2004 and 2006 putting five or seven-year (5+1+1) committed facilities in place, as indeed many in Stockholm had and for which they should be commended. However, the circumstances of the credit crisis mean that treasurers cannot rest on these efforts as the overall health of their businesses is at risk in the economic downturn.

Treasurers have been urging on their companies a complete mindset change: cash is important now and there is a need to extract capital from the business. This can be hard to achieve especially if the group includes partially owned operations.

Perversely, it may even be the case that many non-financial corporates are, at the moment, of stronger credit strength than their banks and that raises the question as to the reliability of credit facilities. This is compounded by bank mergers, which usually reduce credit availability. And regulators are talking of the need to reduce bank leverage sharply, with a corresponding depressing effect on credit availability.

There is considerable evidence that banks are scrutinising every aspect of credit provision, but the general comment from the ***talkingtreasury*** delegates was that for most companies credit is available, albeit at a higher cost, with shorter life, with more onerous documentation and conditionality and after a lengthy credit approval process. A couple of companies were being asked to price new bank loans as CDS ± x.

Meanwhile commercial paper (CP) markets, which had been deep and cheap earlier, had contracted in the two weeks before the conference, and paper was generally easier to get away at the very short end: two or seven days, commonly.

But life for some is much tougher. Access to markets such as CP and bonds, private or public, is much more variable from day to day and varying by issuer even when open at all. The evidence that even internationally renowned borrowers such as E.ON and BMW have tapped the domestic German private placement market shows how funding diversity is prized.

But it is far harder now to achieve funding diversification as markets seem much more highly correlated.

The adage "fund early and fund long" is being rediscovered.

RELATIONSHIP MANAGEMENT There was no doubting the clear message that to be fully effective treasurers must cultivate their financial service providers (banks, auditors and others) and their internal management network.

Debt is a commodity and has become very much a relationship product.

The need for treasurers to get to grips with business issues and to be able to express their views so as to have the necessary influence was highlighted in a number of presentations and comments from the floor.

It is probably unfair to label the modern treasurer as dwelling in an ivory tower, but the importance of treasurers being on the front line of their businesses as well as being involved in the overall strategy and planning came up time after time. History and circumstance in individual companies make this more or less difficult, but the direction of travel is clear.

Interestingly, several companies reported an advantage in talking directly to their banks' credit officers. One tip was to start off by asking them how they felt about their own bank's credit standing at the moment…

RISK FOCUS The approach to risk and risk management also prompted some lively debate. A consensus emerged, however, that treasurers need to develop a risk policy for their business which includes both the more widely appreciated financial risks (credit, foreign exchange, commodity prices, interest rates, inflation) as well as those which appear to be peripheral but which have considerable capacity to spring surprises (pension liabilities, supplier failure, counterparty failure, funding failure and so on). The need for security, liquidity and yield (in that order) was noted as well as a classic risk management tool: identify, quantify, manage or mitigate. One clever piece of advice included: make the problem simple and the solution simpler, although that presumes you have a good solution anyway.

As always, the issue of resource was discussed and this presents a real problem for many smaller and medium-sized companies. One interesting solution suggested was to make risk management part of every employee's job: from eliminating insurable risk hazards to having a clear rationale for hedging action – whether managing contribution margins, earnings volatility or accepting economic outcomes over accounting ones (or vice versa!).

The real impact of accounting changes was clear in that companies which had decided they would only hedge if they could get hedge accounting were finding that the need to get hedges (currency, commodities) in place from their suppliers was causing inefficiency and loss of control problems.

Treasurers, watching the sun go down over the royal palace across the water from the hotel balcony after the conference had a lot to mull over.

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