BEING PREPARED

'THE TREASURER MUST SET UP HIS OWN WARNING SIGNALS AND PAY THEM CLOSE ATTENTION'

During the last recession, far back last millennium, I had lunch with a senior American banker who told me he would not allow anyone under the age of 40 to take a major credit decision, on the grounds that they had never seen the hard times. Little changes – how many of today's treasurers were in senior positions during that recession?

Until 11 September's appalling attack, everyone was agonising over whether the US economy had bottomed and when it would recover, but that was the wrong question. The issue for the treasurer is always: assume the worst does happen – what would I do to minimise the damage to my company?

This exercise is a dark and solitary time for the treasurer. He must temporarily abstract himself from the confidence in the business that most managements naturally feel and envisage the factors that are likely to exist in his industry and his company if his business hits the wall. What does that mean, quantitatively, for the economics and the cashflows? The idea of building such a scenario may be anathema elsewhere in the organisation but the task is to plan what to do about it if it occurs.

Then must come the questions. How adequate is the funding? He should not rely on extra funding from banks (although it may be forthcoming), because banks' behaviour can change in adversity. However, there are very many measures that a business can take to preserve cash, provided the buttons are pushed in time.

What impact would this scenario have on covenants and how likely would it be to trigger any MAC? What impact, if any, would counter measures such as asset sales have on covenants? If there is any question of covenant waivers, he should plan to get them early and assume they will take time. He should examine the use of committed versus uncommitted funding and anticipate any facility renewal dates or withdrawal of facilities. It is always a bad idea to be making such changes during a covenant waiver negotiation. If the worst does happen, to what extent can he forewarn key bankers of any impending problems without impacting confidence? Sometimes it is possible. The list goes on.

And the treasurer must set up his own warning signals and pay them close attention. Behaviour of cash, actual and forecast, is the best signal, one to which the treasurer is closest. Often cash is a clearer signal in times of rapid adverse change than profit forecasts, which can be rose-tinted. And the least relevant signal is the share price. The treasurer knows the business far better than the market and must trust his own analysis.

The scenario, the obstacles and the responses are all part of an emergency tool kit, which often must be developed without much help from colleagues, but it is essential for survival if the worst occurs.

It is time for every treasurer to have a little black book of what to do if it all goes badly pear-shaped. Only once he has that plan is he entitled to hope he never needs it.

Oceanus welcomes comment from readers, which may be published anonymously if requested. Email **oceanus@treasurers.co.uk** or fax 0207 248 2591.