Agenda

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{ RISK MANAGEMENT }

PENSIONS PRESENT AN 'OPPORTUNITY' TO TREASURERS

Treasurers need to take an innovative and optimistic approach to managing their companies' pension risks, delegates at a packed ACT breakfast meeting learned last month.

Speaking at the event on managing pension financial risk, Stuart Clark, group treasurer of technology company Fujitsu Services, said: "We should look at things that may be political suicide for the people that put them on the table, but they may be sustainable models in the future."

Martyn Andrews, trustee director for the Thames Water Pension Scheme, also addressed the briefing, which was attended by more than 100 ACT members. He said that from a trustee's point of view, the company was a key risk that trustees needed to keep "a close eye" on.

He said it was important for companies and trustees to work together to get the right funding, investment and risk strategy in place for pension schemes. "It's not something you do overnight. It's a long-term process," he said.

Andrews also pointed out that while a diversified portfolio reduces pension risk, governance costs increase for both the company and the trustees.

To find out more about upcoming ACT breakfast updates, see www.treasurers.org/events

{ QUESTIONS YOUR FD IS LIKELY TO ASK THIS MONTH }

CHINESE HARD LANDING

I heard the economic outlook for China is a bit gloomier these days. Is that right?
Well, the Chinese economy is slowing down, but this wasn't entirely unexpected. The International Monetary Fund had predicted that China would grow by around 8% this year, but economists at Barclays are now forecasting growth of 7.5% in 2012, while ING thinks it will come in at 7.1%, the slowest growth rate for more than 20 years.

That kind of growth rate still sounds impressive to me. What's the problem?
China's annual growth has averaged 10% for the past three decades and the Chinese economy apparently needs to grow at a rate of 8% a year to create enough employment to ensure social stability.

What's causing Chinese growth to stall, then?
China responded to the global financial crisis with a massive fiscal and monetary stimulus, including expenditure on infrastructure and housing. But this sparked concerns over bad loans and an inflating property bubble, so authorities sought to cool the property market with measures including a city property tax, which have helped to stall growth. Meanwhile, the EU is China's single biggest trading partner and we all know what a mess Europe is in. Some 18% of Chinese exports go there, but in August 2012 exports to the EU were down 12.7% on August 2011. China's growth is also being affected by a fall in rural-urban worker migration and its transition from an export-led economy to a consumption-based one.

Which companies are going to get hit the hardest?
Well, any company with exposure to the Chinese market will be affected. The impact of the slowdown can already be seen in the luxury goods sector. Last month UK fashion house Burberry issued a surprise profit warning after sales slumped in the middle of the year. Its share price plummeted by 19% and £1bn was knocked off its value.

What about next year? Surely it's going to pick up then?
Don't hold your breath. Barclays is predicting Chinese growth of 7.6% in 2013.

WORDS

"Twitter is something my children use to talk about me and therefore I don't know anything about it."

Crispin Southgate, director at Institutional Investment Advisors, admits that he's not up to speed with social media.

"I believe that many banks lost sight of their core values and became complacent, non-customer focused and inefficient."

Lloyds CEO Antonio Horta-Osorio offers his thoughts on why the banking industry has earned such a dreadful reputation.

SOURCE: *CITY AM*, 7 SEPTEMBER 2012 SOURCE: ACT BREAKFAST BRIEFING ON MANAGING PENSION RISK, 12 SEPTEMBER 2012

{ ROBERT HALF SURVEY ON REGULATORY CHANGE }

THE REGULATIONS THEY ARE A-CHANGING

◆ **UK financial services CFOs and chief operating officers (COOs) spend 18% of their time dealing with regulatory change.** ◆ 59% of UK financial services executives spend more time on regulatory matters than they did three years ago. ◆ **38% of UK CFOs and COOs say that their teams are "not very" knowledgeable about changes to the regulatory landscape.** ◆ But 89% of CFOs and COOs in Hong Kong say that their teams are "somewhat" or "very" knowledgeable followed by 82% of peers in Germany and 70% in Singapore. ◆ **87% of UK CFOs and COOs believe that their teams' understanding of regulatory matters should be improved.**

{ CASH AND LIQUIDITY MANAGEMENT }

BANK VALUATIONS COULD RECOVER BY 20%, PREDICTS PwC

The banking industry could bounce back from adversity and enjoy a 20% rise in valuations over the next few years, PricewaterhouseCoopers (PwC) has predicted.

Its report, *Banking industry reform – a new equilibrium*, says that reforms and weak growth will restrict bank equity returns to around 10%, but reduced equity costs and renewed investor confidence could allow a steady return to economic profitability and a strong recovery in share prices.

The report envisages a post-crisis equilibrium in which bank equity costs fall to 8-10% following reform-driven reductions in bank leverage and a gradual return to financial market normality. Capacity overhang, competitive pressures, subdued underlying economic growth and a substantial adjustment and compliance cost burden will continue to impact performance severely in the short term, and keep long-term equity returns to no more than 1-2% over equity costs. But this expectation should still support a substantial re-rating of bank stocks, according to the report.

Report author Miles Kennedy, a financial services partner at PwC, said: "Historically, banks have resisted equity financing, preferring to boost equity returns through debt leverage. Investors have supported this, and policymakers and regulators have consented. The world has now changed and banks and investors need to adapt, recapitalise and reposition. The key obstacle is the undermining of investor confidence through banking scandals and wider economic and regulatory uncertainty."

He added: "Once confidence returns, we should see a new equilibrium emerging with a return to modest economic spreads. We should also see a re-rating of bank stocks from their current – in some cases heavily discounted – levels."

£300,000+
the salary of the brave individual who will succeed Sir Mervyn King as governor of the Bank of England. The job was publicly advertised for the first time last month

2.4%
the amount that the Italian economy is predicted to shrink by in 2012, according to the OECD

43.6%
the proportion of British exports that went to the eurozone countries in July 2012, the lowest in 25 years, according to Open Europe

10.2%
the French unemployment rate in the second quarter of 2012, a 13-year high, according to official statistics body the National Institute of Statistics and Economic Studies

$1bn
the sum that Japanese bank Nomura hopes to shave off its cost base by the end of 2014

READER LETTER

HEDGES ARE NOT 'COMPLICATED AND DANGEROUS'

I was surprised, and somewhat disappointed, to see an article in The Treasurer *called "Uprooting the hedge" (September 2012, page 66).*

As someone who has worked in providing hedging for corporates for many years, I disagreed with much of the content in this article. It misrepresented both banks and hedging instruments in what I feel was at best plainly incorrect, and at worst misleading and misdirecting.

While I wholeheartedly agree that a company's objective should be about "making things and selling things", it is not about then forgetting the foreign exchange risk created by this because hedges are "complicated" (no), "dangerous" (no), and "the only people who really want them are investment banks and their rocket scientist clients" (no, no).

Yes, financial instruments can be complicated. Yes, financial instruments can be "dangerous" if they are not understood, or used in the right commercial circumstances. And yes, as we are all well aware, some banks have been over-keen to promote them in the past. But none of that means that hedging has no value, and indeed it arguably has greater value in the current uncertain climate.

The magazine is held in high regard, and articles within it are assumed to be credible. I feel strongly that this particular article has fallen short of the standards I expect of the magazine, and of the ACT's philosophy generally. At the very least, there should have been an opportunity for an opposing view.

Sinead Stringer
Head of currency risk management, UK, Handelsbanken

The views expressed in this letter are personal and do not necessarily reflect the views of Handelsbanken.