The Treasurers' Conference 2006

The Treasurers' Conference 2006 provided an opportunity for treasury professionals to discuss some of the major issues confronting the profession. David Blackwood, Group Treasurer at ICI, chaired the conference, which focused on the themes of risk, pensions, international accounting standards (IAS) and key developments in treasury.

Adair Turner, Chairman of the UK Pensions Commission, gave a holistic view on demography, globalisation and capital supply and demand.

The key question for delegates was how treasury management could be effective in the global economy.

Paul Tucker, Bank of England Monetary Policy Committee member, picked up the themes in his review of major economical and financial issues.

David Blackwood chaired this year's TTC.

Delegates considered the changing relationship between banks and treasurers – a topic set out by Simon Robertson, Chairman of Rolls-Royce – and the issues which they deal with in their daily working lives, such as the impact of IAS, pensions, IT and the changing nature of cash management and the corporate supply chain.

As always, the conference provided an opportunity for networking, but it wasn't all work – the speaker at the gala dinner was David Lloyd, former England cricketer and captain of Lancashire who now works as a TV summariser, who gave some insights into the characters and events in the world of cricket. ■

A quick peek at the crystal ball

The unexpected turmoil in the financial markets during TTC has underlined the difficulties of predicting the future. In a session sponsored by Lloyds TSB, a panel of treasurers discussed the issues likely to be passing across treasurers' desks over the next 12 months.

Stephen East, Finance Director of Woolworths and ACT President, said: "It has been a good time to refinance as it is always better to borrow money when banks want to lend it." Many treasurers have already taken advantage of the low interest rate environment to refinance.

With Basel II on the horizon, treasurers need to stay on top of changing documentation. A lot of discussion has centred recently around issues such as ancillary business and documentation.

And John Fulton, Group Treasury Director at Cadbury Schweppes, said: "My advice for corporates is to get on top of their story and prepare well in advance. Understand your credit metrics and get alongside your investor relations people. Don't assume it is always going to be as good as it is today."

A strong theme in the discussion was the need to communicate and educate other areas of the company. Will Spinney, Invensys Group Treasurer, said pension schemes and the risks and benefits of the use of financial instruments need to be explained to business departments.

Delegates also reported that many treasury functions were aiming to free up time by revising treasury systems. As usual there were split views over outsourcing, with support for freeing up expensive people from doing repetitive tasks but a desire to proceed cautiously. ■

Great time to be a capitalist

Viewing the pension crisis from a global rather than a national perspective shows that there is a great deal of uncertainty about the future, according to Adair Turner, Chairman of the UK Pensions Commission.

While corporates and employees continued to be concerned about how and when pension deficits would be funded, Turner addressed the overarching key issues, looking at the global impact of demography on savings and pensions.

He said: "It is not just a UK pension issue but something that is important worldwide and has had an impact on all parts of the world."

While the baby boom, decrease in fertility rates and increase in life expectancy have all had a dramatic impact on the pension crisis in the UK, the rate of saving and level of labour resources have had some macro effects.

Turner said: "There are two theories in this area. One is that we are experiencing a global glut of saving in some countries, in particular China.

"The alternative theory is that there is a global glut of labour, meaning that the global labour force is very large, which will impact the pension crisis."

The worldwide demography shows that one generation attempting to sell assets to the next generation is creating problems due to a lower birth rate in the younger age group.

Turner rounded off by saying: "It is a great time to be capitalist despite the future being very uncertain." ■

Keynote speaker Adair Turner outlined the global pension implications of changing demographics.

Basics and business focus key to success

Communication, strategy and keeping sight of the basics are the fundamental attributes of a successful treasury team, according to a panel of treasurers at The Treasurers' Conference.

Gerry Bacon from Vodafone, Matthew Hurn from DSG International and Jane Pilcher from Anglian Water argued that implementing strong treasury policies that fitted into the company-wide strategy and policy was at the core of being best in class.

"Our treasury policies are fundamental to everything that we do," said Hurn. "It is important that our policy and strategy for implementing our policies is in line with the rest of the company."

Bacon echoed Hurn, advising that treasurers should treat policies as living and breathing organisms that develop and change over time.

Communicating these policies and how the treasury department functions to the wider company is of vital importance.

Pilcher said that treasury was not simply an isolated department and therefore had to operate as an integral part of an organisation.

"No one likes nasty surprises," she said. "So you must make sure that non-executives and other departments of the business are aware of what is going on so that they are not shocked if something that influences the shareholders happens."

The core principles of treasury should always be considered when defining policy and carrying out day-to-day tasks.

Hurn said: "We should never lose sight of the basics of treasury. The fundamentals are what this profession was built on and therefore remain important today." ■

Best in Class panel: Gerry Bacon, Matthew Hurn, Patrick Nolan (HSBC) and Jane Pilcher (left to right).

Treasury centralisation demands technology

Using technology to streamline the treasury function and speed up payment processes is a must in today's global and centralised corporate environment.

Corporates face more challenges when striving to meet the demanding needs of their global operations. With the majority of treasury departments centralising – dealing with core functions via one central department – the need for straight-through processing (STP) and a good treasury management system has increased in recent years.

Christoph Waldvogel, Project Manager for Treasury Systems at utilities company RWE, said: "Before we adopted a new system we had isolated systems, which dealt with different elements of our treasury functions. We also used Excel spreadsheets which is very time-consuming.

"We had new needs because we were centralising due to acquisitions, so we had to restructure."

Waldvogel explained that RWE had moved from having a complex web of treasury technology to a system that enabled a clear separation of duties and functions.

He said: "We now have a significantly increased volume of trading using an internet-based platform with the same amount of people working in the treasury department."

Cheaper oil on its way

Oil is firmly back on the agenda of the global economy. With the conflict in Iraq and heavy demand for oil – notably in the US – the price of oil remains above $70 a barrel and could even be heading for $100 a barrel. But Andrew McLaughlin, Group Chief Economist at Royal Bank of Scotland, told the conference that his baseline forecast for the price of oil was $55-$60 a barrel over the medium term.

Despite this relative optimism, McLaughlin warned: "This market is fraught with risks, many of them macro political risks, and there is very little potential for prices to come down."

The upward price trend is demand-driven, with regular mini supply shocks creating volatility and speculation. Globalisation has shifted demand, with emerging economies' appetite for energy increasing.

McLaughlin said: "Economists can tell you little about the short-term oil price."

But in the medium term economists can help, even though the normal price cycle does not apply because of OPEC, which prevents direct foreign investment and creates real uncertainty in the oil market over investment.

Because of stronger world GDP growth and supply problems, the future oil market is forecasting a price of $70 for the next five or six years, but although there is currently a demand/supply imbalance that should be corrected in the next three to five years, when the price will fall, according to McLaughlin.

On the demand side, the price fall will be driven by slowing GDP and emerging alternatives, notably coal and nuclear. The number of oil rigs is at its highest for 20 years, US commercial crude stocks are at a five-year high and, with the increased investment and the strong price, hitherto expensive oil is now being pumped out of the ground.

For those who have to plan for the cost of oil, McLaughlin warned it could be a "wild ride". ■

Andrew McLaughlin: Wild ride for planners.

SEPA's benefits called into doubt

With a Single Euro Payments Area (SEPA) fast becoming a reality, some treasurers are starting to question the supposed advantages.

For years the costs and complications of cross-border transactions have been the bane of treasurers. For a global corporation in an environment where overseas transactions are frequent and regular, the need for SEPA seems obvious.

But Martyn Smith, Director of Tax and Treasury at Dyson, said SEPA was not necessarily a life-changing attribute to his treasury functions.

"I am struggling to see exactly how it will change our lives," he said. "The method of central bank reporting will remain to be an issue for corporates. I do wonder whether SEPA is an example of technology for technology's sake."

While SEPA should offer an easier and more streamlined method of completing transactions with overseas jurisdictions, there are still many complications to consider.

Mark Kirkland, Global Head of Financial Risk and Cash Services at Philips Electronics, echoed Smith's concern regarding central bank reporting.

"SEPA will have very little effect directly," he said. "I wish the ECB would focus on central bank reporting. "The reality is we will still have to tell countries what is cross-border and what is local."

The Children's Trust

During the gala dinner, delegates at The Treasurers' Conference showed their support for charity by donating an amazing total of £2,385 to the Children's Trust.

The Children's Trust helps many children in the UK with profound disabilities and complex medical conditions find the medical care, therapy and specialist education that they need.

For more information on the Children's Trust and the work it does, call 01737 365000 or visit www.thechildrenstrust.org.uk.

Angie Turner, Children's Trust: £2,385 donation.

Companies don't trust their banks any more

With 43 years of experience in investment banking, Simon Robertson, Chairman of Rolls-Royce, has a well-rounded perspective on bank/company relationships, which he shared in a keynote speech to the conference delegates.

With the advent of what Robertson described as the UK's big bang in investment – when US banks came to the UK to sell stock – relationships between banks and corporates have changed dramatically.

Robertson said: "The US banks came in much more aggressively and really changed the way we work. Now, there isn't the exclusivity with a bank, nor the trust that was previously so important."

Simon Robertson: More options.

Having spent many years at Kleinwort and Goldman Sachs, Robertson said that the confidentiality that a company could rely on from a bank was no more.

"I am a traditionalist and I think it would be beneficial to go back to a time when you could get good, solid and confidential advice from your bank without a fee or concern for your privacy," he said.

Despite the complications with bank and company relationships, Robertson argued that treasurers have many more options available to them today.

"Treasurers and finance directors have so much more at their disposal," he said. "To accompany this it would be beneficial to have someone to help navigate you through the complications." ■

The exhibition

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Different kinds of uncertainty

Treasurers have a great deal in common with the Bank of England, according to Paul Tucker, a Monetary Policy Committee member at the Bank. He said that both treasurers and the Bank were positioned where the real economy met the financial economy.

Tucker said that treasurers and the Bank both had to deal with uncertainty but that there was a distinction between avoidable and unavoidable uncertainty. At a macro level, the UK economy had been beleaguered by avoidable uncertainty in the period between 1960 and the early 1990s and that had hampered both corporates and the financial markets. For instance, no one knew what the government's inflation target was, when it changed its target or even if it was serious about meeting that target.

Now there is a clear framework for monetary policy decisions and a clear framework for implementation of monetary policy. 1992 saw the creation of a credible anchor on interest rates and this was embedded in 1997, which led to a decline of long-term interest rate risk. And while cyclical uncertainty remains, Tucker argued that the Bank had become more transparent. As a result, while uncertainties remain, the likely reaction from the Bank is clearer.

UK corporates are currently borrowing £300bn in the short-term sterling money markets but this market is subject to greater volatility than the euro market. However, recent reforms to the structure of the market – including the Bank paying its own interest on its borrowings – should end the excess volatility which has prevented high-quality issuers participating. One commentator said the steps taken by the Bank should increase the depth, stability and overall liquidity of the market.

Tucker examined why the amount of cash held by UK corporates had been building up. Profits have consistently exceeded investment and although this is a trend in the US, Japan and Canada, it is much more noticeable in the UK. One explanation is that UK plc is building up a cash cushion to deal with its pension deficit. Contributions to pensions are back up to the level of the early 1990s; the difference is that current earnings are much larger.

The pension issue may also explain the recent unexpected weakness in UK business investment, which is well below the average of recent recoveries. Corporates seem uncertain how to manage the current volatility. Defined benefit pension scheme uncertainty – which Tucker likened to a complicated option because of the components of longevity, earnings growth and the dispute over the discount rate – never used to be part of the risk management responsibilities of treasurers and CFOs.

"Treasurers have to balance the financial risk with the business risk," said Tucker. "Weighing that balance may have been the reason you have been pausing." The other uncertainties he pointed to were globalisation, and oil and commodity prices. It is also possible the investment data will be revised.

See Bank Rolls Out Money Market Framework, page 04 ■

Paul Tucker: Treasurers have to balance the financial and business risks.

Rushing will botch convergence job

Time is needed to ensure that the convergence programme between the US and the international accounting standards produces good standards.

According to Ian Mackintosh, Chairman of the UK's Accounting Standards Board (ASB), the introduction of international financial reporting standards (IFRS) have not made a huge difference for companies in the UK. He did admit that in areas such as financial instruments, share options and pensions, international standards had increased the number of disclosures that companies were forced to give but added: "Such disclosures would have come about in UK GAAP eventually." In the UK, he said, the changeover to IFRS while not easy was largely a matter of change management.

Ian Mackintosh: UK changeover to IFRS a change management issue.

However, it is the next stage of the development which he admitted was causing concern. Convergence, said Mackintosh, was like motherhood and apple pie: who could disagree with it? But convergence also needed time to ensure that it was not convergence at any price, but that the end-result was good international standards. He pointed to the work being done by the International Accounting Standards Board and the US Financial Accounting Standards Board on the conceptual framework and measurement.

"These projects have enormous implications and they need to be considered carefully in the light of each other," he said. He also warned against rewriting or updating existing standards – such as leasing or property, plant and equipment – to incorporate the latest thinking on fair values, which could give unintended consequences.

Stephen Cooper, Managing Director and Head of Research of Valuation and Accounting Research at UBS, said that many analysts were negative about IFRS but he personally was very supportive. He said the City worried about proforma and adjusted numbers, which companies were publishing mainly because it was unclear whether, for instance, the adjustments were audited or even conformed to UK GAAP. He did, however, criticise IFRS for the choices it had introduced, many of which were unavailable in UK standards. ■

Financing the supply chain

Treasurers are beginning to examine how to extract the value of working capital locked up in their financial supply chains. According to Mark Davies, Royal Bank of Scotland Director for International Product Management, many corporates have their physical supply chain working efficiently and now need to turn their attention to their financial supply chain.

Banks are promoting programmes that leverage the buyer's credit grade to provide accelerated payment to suppliers at a discount, so facilitating an extension of payment terms by the buyer. For the suppliers, finance should be cheaper as it is priced around the buyer's credit standing rather than theirs.

One of the major reasons for increasing interest in this area is the growth of cross-border trade on open account terms, with cross-border catching up with domestic volumes.

While showing interest in the idea, treasurers expressed apprehension about anything that might restrict access to capital and were not keen to replace creditors on their balance sheet with bank debt. They are also wary of signing any legally binding agreements that might create extra risk

Simon Atkinson, Group Treasurer at Woolworths, a company with £1.3bn cost of sales and much overseas sourcing for its 10,000 product lines, has talked to banks and other suppliers and started a pilot financial supply chain project. He said: "The questions you have to ask are, who takes the risks, who does the work and who takes the most benefit?"

Such schemes could work well for capital-hungry growing suppliers of established businesses. On the issue of supply chain finance, Antony Barnes, Group Treasurer at GUS, said: "It is not an issue that treasury has led on but has helped to smooth the process. Where is the value for everyone? We are not attracted to something that ends up on our balance sheet." ■

Swing time

Kenny Mackay of golf event sponsor Commerzbank Corporates and Markets prepares for a putt.

Guests at TTC battled it out for first prize on the golf course at this year's event. Despite the wet Welsh weather, a record number of 88 golfers turned up for the event, which was sponsored by Commerzbank Corporates and Markets.

Competitors faced the world-class Roman Road golf course at the Celtic Manor, Newport. First prize went to Jason Skelton, Matthew Rolfe, Ian Stocker and Richard Willis, who fought hard against the rain and wind to win top spot on the golf course.

ACT spokeswoman Emma Martin said: "Conditions were challenging even for the most competent golfers, but the tournament was still a huge success. The course was not easy as the rough had been left to grow deep in preparation for the upcoming Wales Open, but all golfers completed the nine holes with or without waterproofs!"

The event included 'nearest the pin' and longest drive competitions.