CONFERENCE PREVIEW

Banking relationships

8 February 2005

At Drapers' Hall, on Tuesday 8 February 2005, the ACT will jointly host a half-day conference with the Association of Foreign Banks (AFB), bringing together for the first time two trade associations with a common purpose.

The conference will examine and debate the issues, which need to be carefully balanced, in order to satisfy the needs of corporates and their banks, focusing on:

- What defines a 'relationship' to the corporate treasurer? Is it industry knowledge/product range/ratings/personalities/ consistency/credit appetite?
- What defines a 'relationship' to the banker? Is it partnership/access to senior management/'no surprises'/ancillary business/rating?
- Can relationships survive disintermediation?
- Is there real payback for loss-leading credit provision?
- Are the rating agencies destabilising relationships?
- Is there an optimal relationship panel and how does banking consolidation affect it?
- Does a corporate really care who provides it with credit?
- Should all business be competitively bid regardless of relationships?

The event will be chaired by Michael Kirkwood CMG, UK Country Officer, Citigroup.

Speakers and panel discussion participants will include prominent bankers and corporate treasurers as well as members of the Financial Services Authority and the American Bankers Association.

Anthony Hilton leads risk debate

The ACT/Association of Insurance and Risk Managers (AIRMIC) conference, sponsored by Zurich, considered the crossover between treasury risk management and the approach that should be taken by an insurance and risk manager.

Anthony Hilton, City Editor of the *Evening Standard*, challenged whether some of the long-term trends in risk management are successful in reducing risk. The insurance industry, which is supposed to understand and quantify risk, is one of the most volatile industries itself, he said.

On the subject of risk management, he explained that if everyone is operating at the risk-adverse end of the spectrum, this in itself creates market risk. For markets to function you need a diverse range of views. Regulation in general can also fail to reduce risk by forcing everyone to behave in the same way.

Should we give in to investors' demands?

The Association of British Insurers' (ABI) recently published discussion paper on bond standards (See *Technical Update*, page 62, *The Treasurer,* September) was the theme of the first-ever ACT breakfast briefing, which was attended by some 50 people from all sides of the bond market.

Peter Montagnon, Head of Investment Affairs of the ABI, said the body does not plan to produce a list of investors' demands. It wants to improve standards quickly, but by making improvements that are not controversial. For more complicated issues, it plans more regular meetings between market participants. The ABI and the Bundesverband Investment und Asset Management e.V (BVI) are now in the process of creating a permanent working group.

Simon Pilcher, Chief Executive, Fixed Income of M&G, played down the possible conflict by acknowledging that every company is unique and, therefore, investors expect covenants to be tailored accordingly. "Companies that have behaved properly to their investors in the good times will find that, when the market is going through difficult times, they will be the ones retaining good access and availability," he said.

The treasurer's position was put forward by Terry Bird, Group Financing Manager of Cadbury Schweppes. While willing to resolve minor irritations on documentation, he argued for diversity in other matters. "I expect to compete with others for investors," he said. His resistance to offering investors strong negative pledges was backed up by a rigorous assessment from Fitch Ratings. The latter explained why, given the lack of a US-style Chapter 11 insolvency regime in the UK and Europe, corporates would be ill-advised to have their bonds constrain them from being able to raise emergency secured funding if they fall into financial difficulty.

Debating the paradox

Bob Diamond, Chief Executive of Barclays Capital, was the key speaker at the recent evening symposium, entitled *Receptive Markets, Reluctant Borrowers – why this paradox?*

David Blackwood, Group Treasurer of ICI, and David Swann, Group Treasurer of BAT, provided the treasurers' view in the panel session, alongside contributors from rating agencies and the banks.

The bank speakers set out the facts behind the seeming paradox of a market of investors and lenders hungry for assets at aggressive pricing. A piece of analysis by Barclays Capital focused on the roles of the credit default swaps (CDS) market, hedge funds, the banking sector and an apparently deleveraging corporate sector. The ensuing discussion also introduced the role of the rating agencies in setting corporate liquidity benchmarks.