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*talkingtreasury*

# The international thought- leadership forum

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Tuesday 19 March 2013



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# Panel discussion: rethinking corporate funding strategy

## Chair

### **John Grout**

Policy & Technical Director, **ACT**

## The panel

### **Richard Garry**

Treasurer, **HS1**

### **Philip Learoyd**

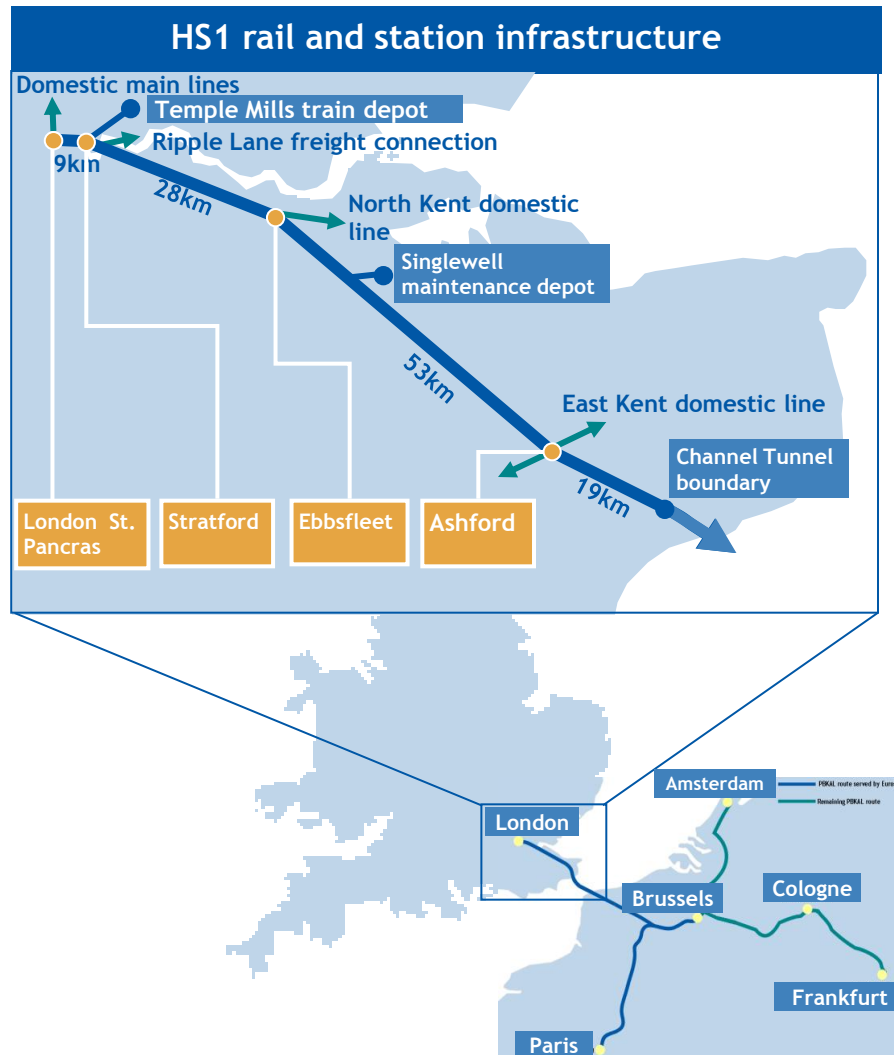
Head of Funding & Treasury Operations, **SABMiller**

### **Doug Smailes**

Group Treasurer, **Anglo American**



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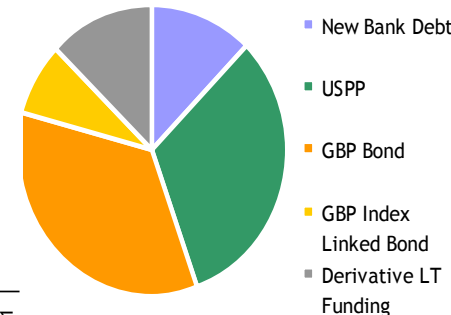
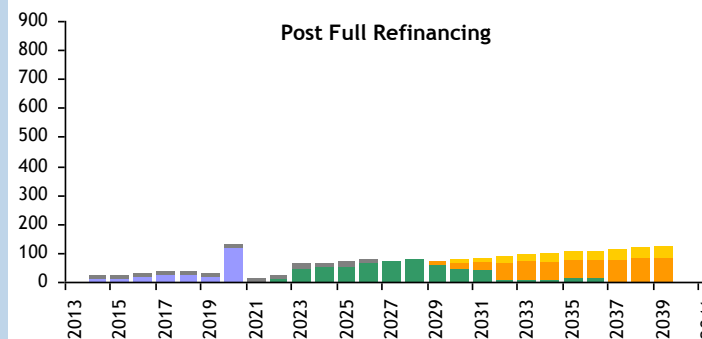
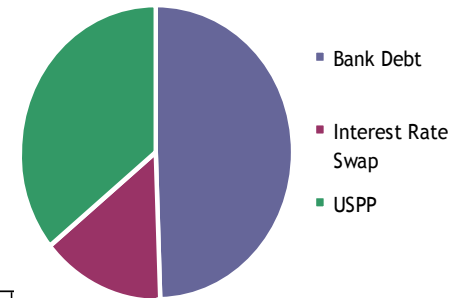
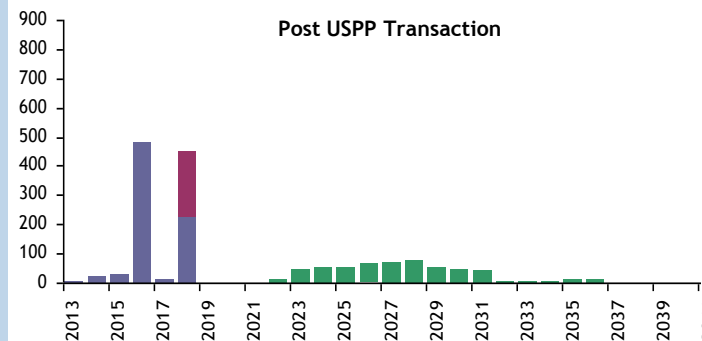
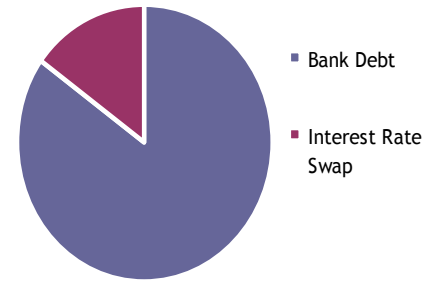
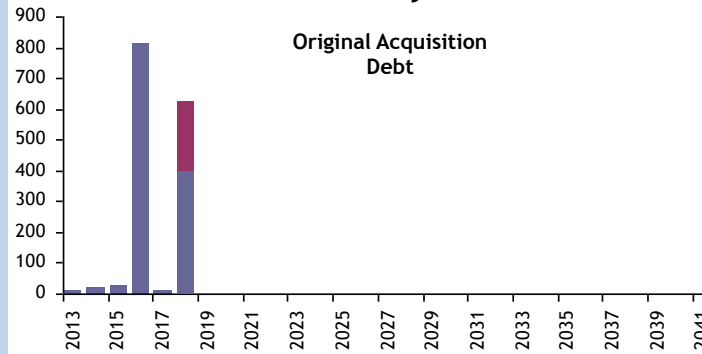
## Business overview

- Concession until 2040 to operate, maintain and renew the 109 km high speed rail line
  - UK's only high speed railway, completed in 2007
  - Connects London St. Pancras International to the Channel Tunnel
  - Serves four stations along the route
  - UK leg of the Paris-Brussels-Köln-Amsterdam-London trans-European transport network priority project
- Primary business is to provide high speed rail access to domestic and international passenger rail and international rail freight

# Evolution of HS1's Financing Structure

- Acquisition was originally financed with £1.3 Bn of bank debt
- Oct '12: First phase was issue £565m equivalent of US private placement ("PP") notes under original acquisition security structure
- Feb '13: Phase 2 & 3 combined on bond pricing to establish a secured debt programme (WBS) involving pari-passu bank, bond and PP debt
  - £760M Dual Tranche (nominal and index linked), amortising bonds maturity Nov 2038.
  - The PP notes automatically 'flipped' into the new secured structure
  - £221m of new 5 and 7 year amortising bank facilities
  - £800m (nominal) Offsetting swaps to finance Acquisition OTM Swaps (£150M MTM)
- All classes of debt governed by a common covenant package under a Common Terms Agreement and accede into common intercreditor arrangements.

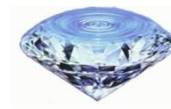
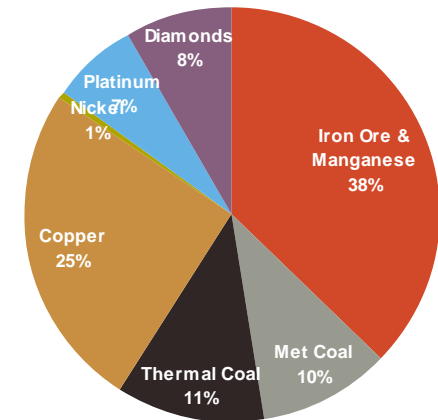
## Debt Maturity Profiles



# ANGLO AMERICAN: A GLOBAL, MULTI-COMMODITY BUSINESS



PORTFOLIO BREAKDOWN 2012  
EBITDA



## Ferrous Metals

- Iron ore and manganese operations in South Africa, Brazil and Australia

## Copper

- Six operations in Chile with significant future growth potential from projects in Peru and USA

## Nickel

- Major operations in Brazil; Barro Alto project completed, on track for full production by the end of 2013

## Platinum

- World's leading producer of platinum, accounting for ~40% of newly mined platinum output

## Diamonds

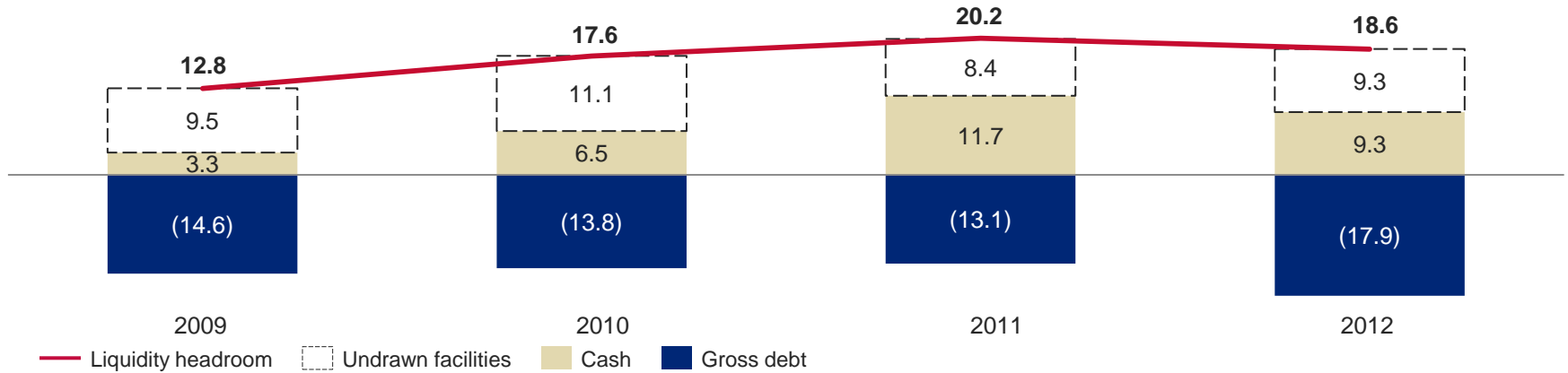
- The world's leading rough diamond company, 85% owned by Anglo American

## Met & Thermal Coal

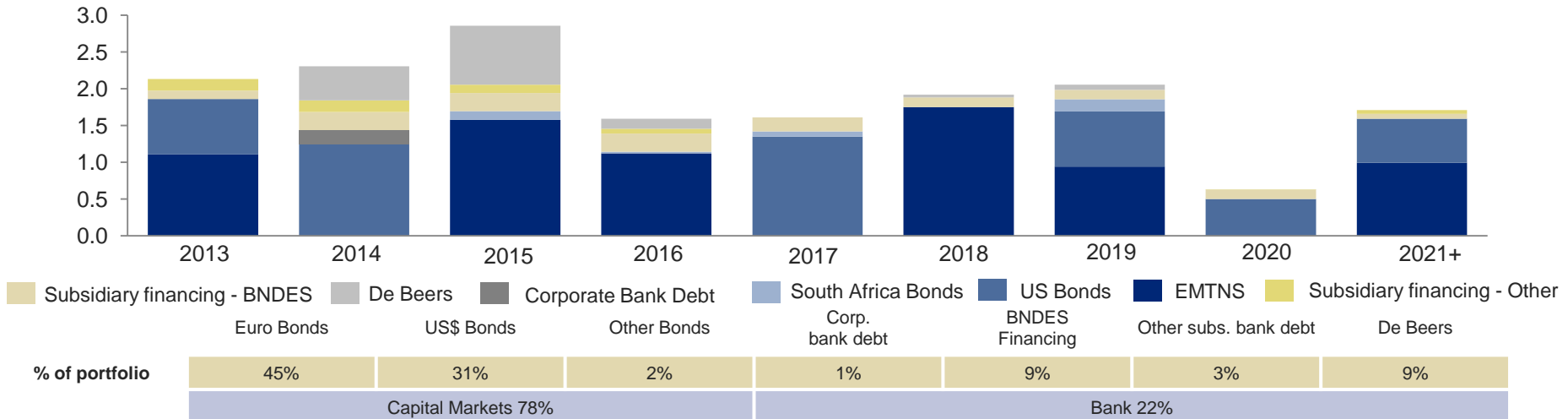
- High quality met coal operations based in Queensland, Australia
- Low cost thermal coal operations based in South Africa & Colombia

# ANGLO AMERICAN FINANCING

## Liquidity headroom (\$bn)



## Debt maturity profile (\$bn)





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# A wave of new regulation – what can businesses do now to prepare?

## Chair

**Colin Tyler**

Chief Executive, ACT

## The panel

**Simon Gleeson**

Partner, Clifford Chance

**James Harvey**

Assistant Treasurer, Rolls-Royce

**Soo Shin Kobberstad**

Vice President – Senior Analyst

Moody's Investors Service



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# A wave of new regulation – what can businesses do now to prepare?

Presentation

**Simon Gleeson**

Partner, Clifford Chance



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# The Tsunami of Regulation

Simon Gleeson

19 March 2013

C L I F F O R D  
C H A N C E

What can we do to  
prepare?

# Points of Impact

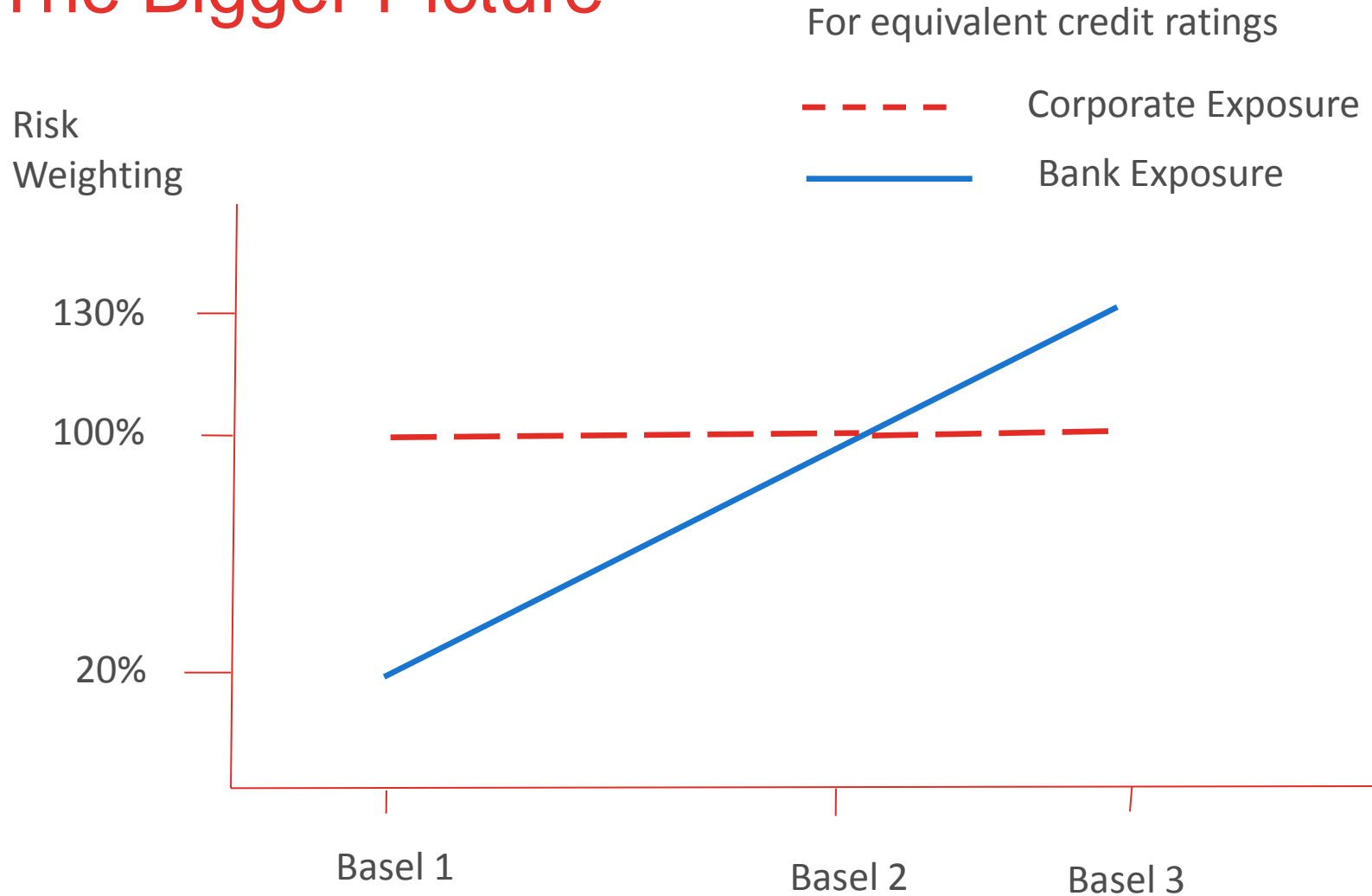
- Basel III – impact on the loan market
- Impact of EMIR on corporates use of derivatives
- What does Vickers mean in practice

# Basel III

# Risk weighting: Premium for exposure to financial institutions

- **1.25 multiplier to correlation adjustment (ie up to 35% increase in risk weighting) for exposures to:**
  - banks, broker/dealers and insurance companies if large (above \$100bn assets)
  - all unregulated financial entities regardless of size
    - this will include group treasury entities
- **PD for exposures to counterparties which are “highly leveraged” or own traded assets should reflect performance of those assets in periods of stressed volatilities**

# The Bigger Picture



# Leverage Ratio

## Leverage ratio

$$\frac{\text{qualifying capital}}{\sum (\text{gross asset value})} > \text{required ratio}$$

## Capital requirement ratio:

$$\frac{\text{qualifying capital}}{\sum (\text{risk weighting} \times \text{asset value})} > \text{required ratio}$$

# Leverage Ratio

- **non-risk-based backstop cap to gross exposures**
- **probably 3%, probably tier 1 capital only**
- **gross exposures:**
  - all assets, also cash and highly liquid
  - ignore guarantees and collateral
  - ignore netting (save for derivatives)
  - include repos
  - include full value of
    - lending commitments
    - Trade finance commitments
    - Standby letters of credit and guarantees
  - 10% CCF available if unconditionally cancellable

# LCR - Liquidity Requirements for Loan Facilities

	Non-financial corporates, sovereigns and central banks	Banks	Other financial institutions*	Hedge funds, SPVs, SPEs and others
Credit Facility	10%	40%	40%	100%
Liquidity Facility	30%	40%	100%	100%

\*securities firms, insurance companies, asset managers, pension funds, collective investment vehicles and (probably) investors acting as such.



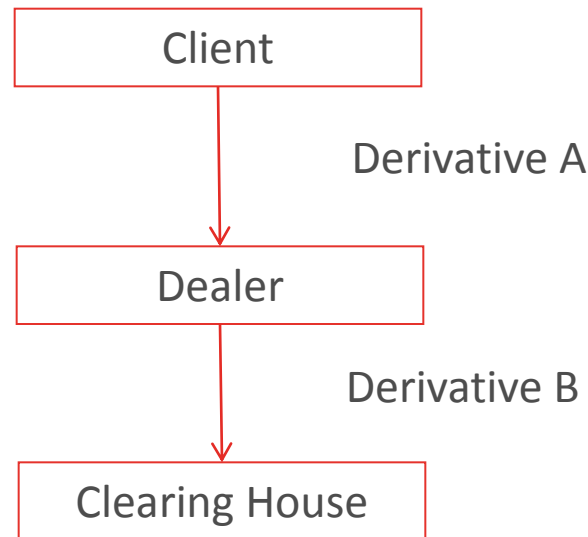
# Derivative Clearing

# Expected timetable

- EMIR came into force in August 2012
- Most provisions deferred pending making of specific rules
- 1 January 2013 is the G20 target date for clearing obligation – may be met
- In practice implementation will be a rolling process through 2013

# Clearing and Derivatives

- Trading book costs increase manyfold
- Cost to bank of holding trading book securities increases
- Clearing of derivatives increases costs of hedging (since cleared derivatives must be collateralised) even for exempt counterparties



**If derivative B is required to be collateralised, dealer must either call for collateral from Client or charge Client for its costs of collateralisation**

# Scope and key definitions

## NFC+

**Non-financial counterparties over the clearing threshold:** non-financial counterparties whose positions exceed a specified threshold

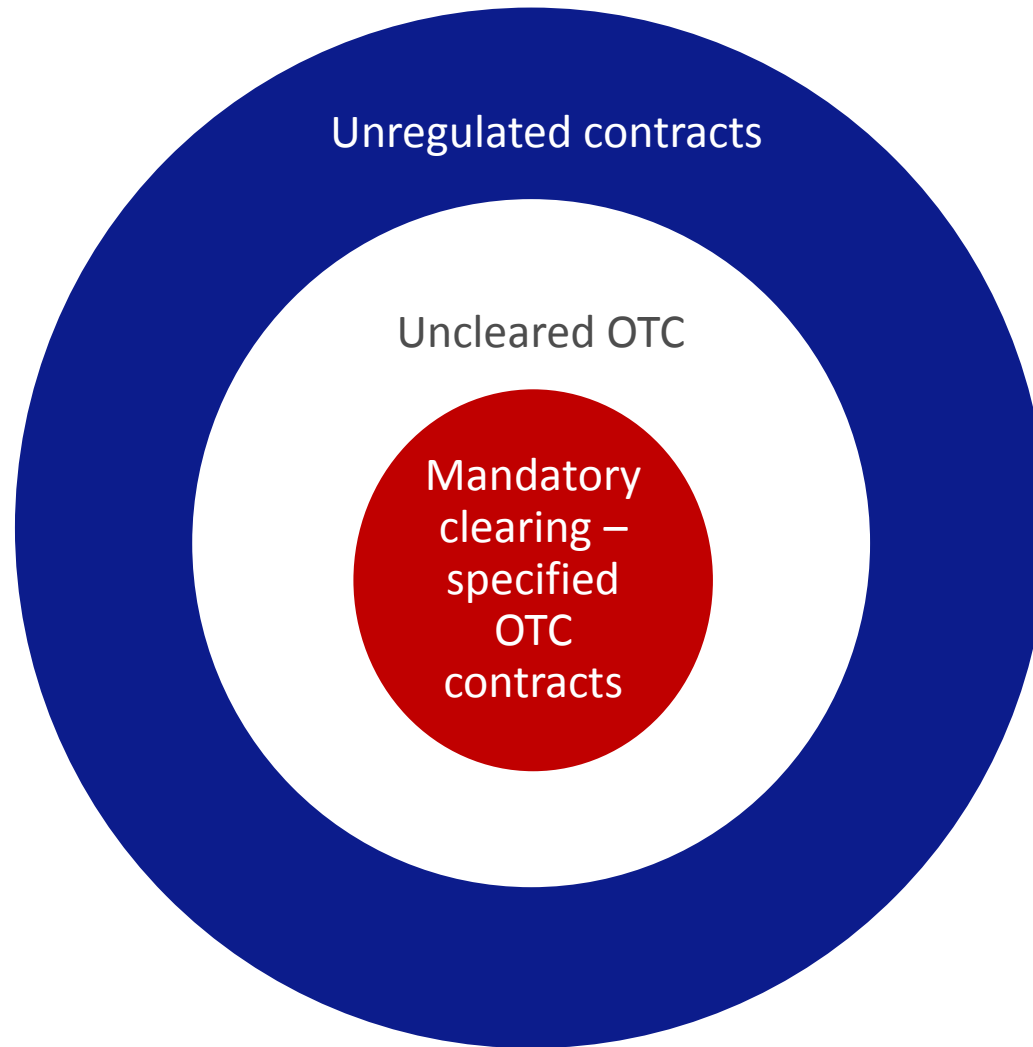
## NFC

**Non-financial counterparties:** an undertaking established in the EU that is not a financial counterparty

## Financial Counterparties

EU authorised investment firms, credit institutions, insurance undertakings, UCITS and their managers, IORPs plus AIFs managed by EU AIFMs

# Overview of the post-EMIR OTC market



# Obligations applying to all parties to OTC swaps (1)

## ■ Reporting

- details of any derivative contract
- any modification or termination of any contract
- next business day
- trade repository e.g. DTCC, REGIS-TR
- no duplication

## ■ Timely confirmation

- FCPs and NFC+ confirmation must be the same day
- NFCs must be confirmed by the end of the second business day

# Obligations applying to all parties to OTC swaps (2)

- Written agreement on reconciliation practices must be prior to the OTC derivative contract
- Written “detailed” agreement on dispute resolution processes and procedures
- Portfolio compression mandatory at least twice per year if more than 500 OTC contracts open

# Basic Initial Margin Requirement

	Credit	Rates	FX	Commodity, Equity and Other
0-2 Years	2%	1%	6%	15%
2-5 Years	5%	2%	6%	15%
5+ Years	10%	4%	6%	15%

All Figures percentage of notional amount of Swap

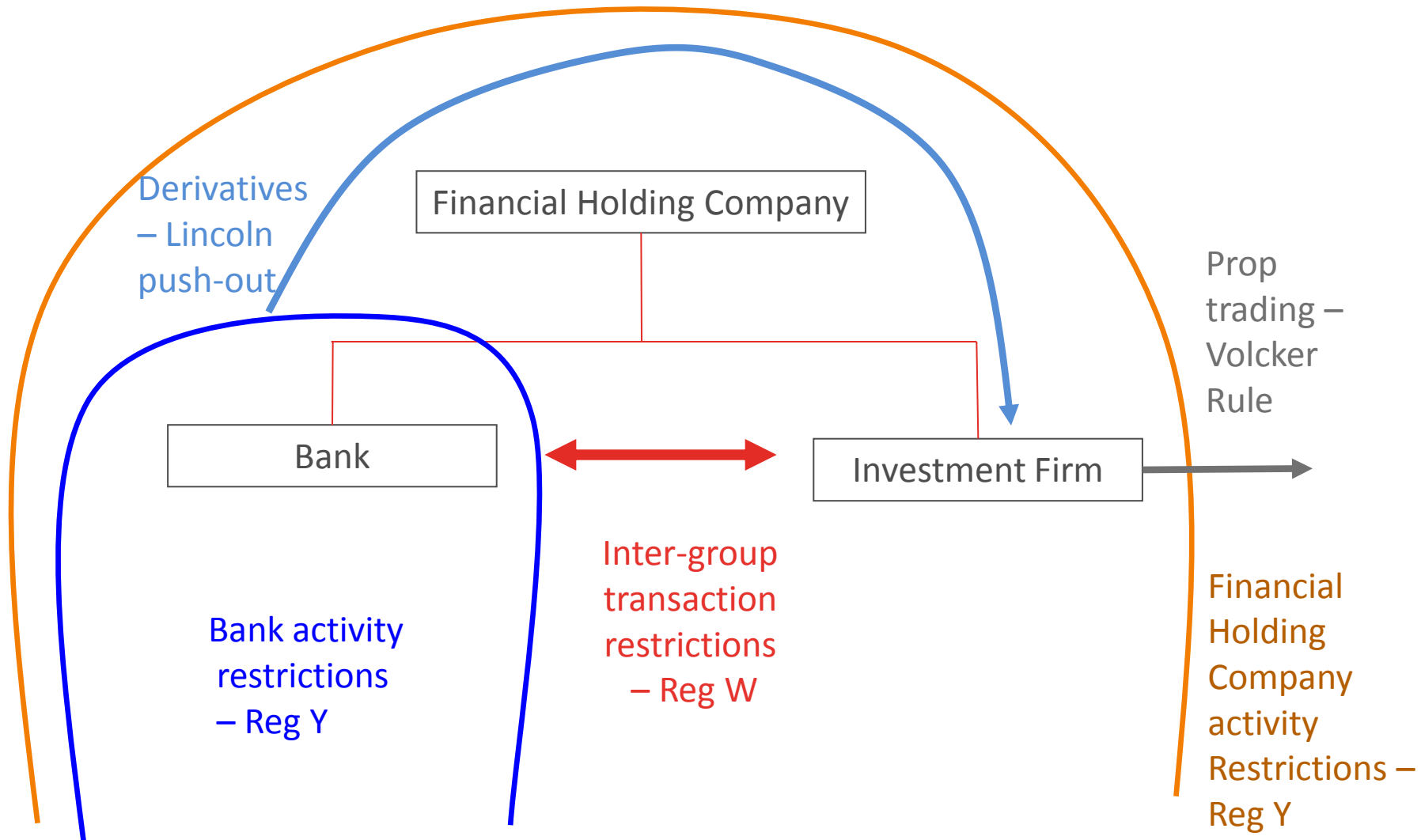


# Exemption for intra-group transactions

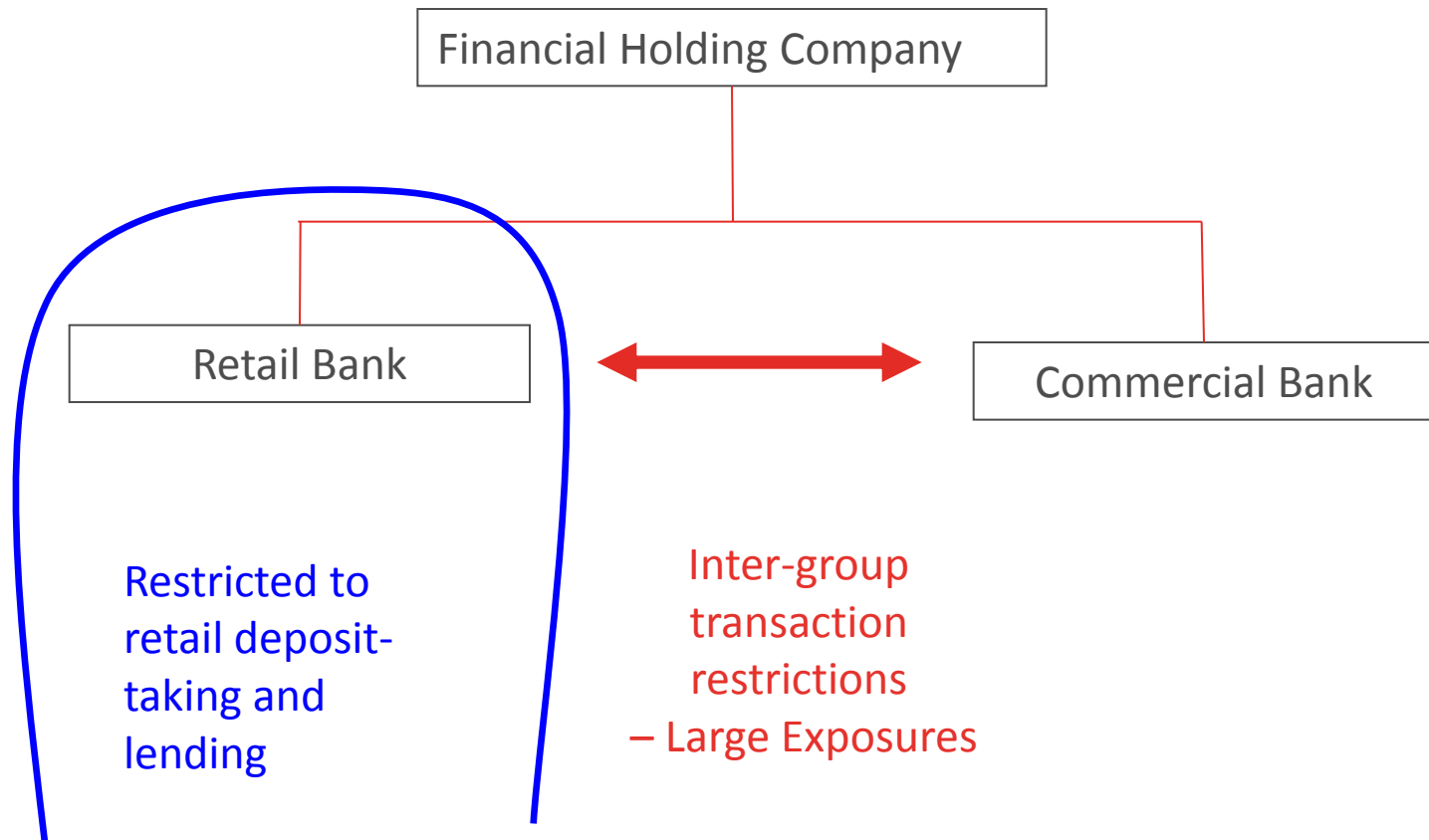
- Financial counterparties and non-financial counterparties have an exemption from clearing and margining requirements if:
  - their counterparty is part of the same group and included in same (qualifying) accounting/regulatory consolidation on full basis;
  - both parties are subject to appropriate centralised risk management procedures; and
  - their counterparty is established in EU or in jurisdiction declared “equivalent” by EU Commission (note interrelationship with general exemption for transactions with equivalent jurisdictions)
  - Plus for exemption from margining:
    - *no impediment to prompt transfer of own funds/repayment of liabilities between parties;*
    - *both parties have adequate risk management processes; and*
    - *public disclosure of reliance on exemption.*

# Vickers and Bank Break-up

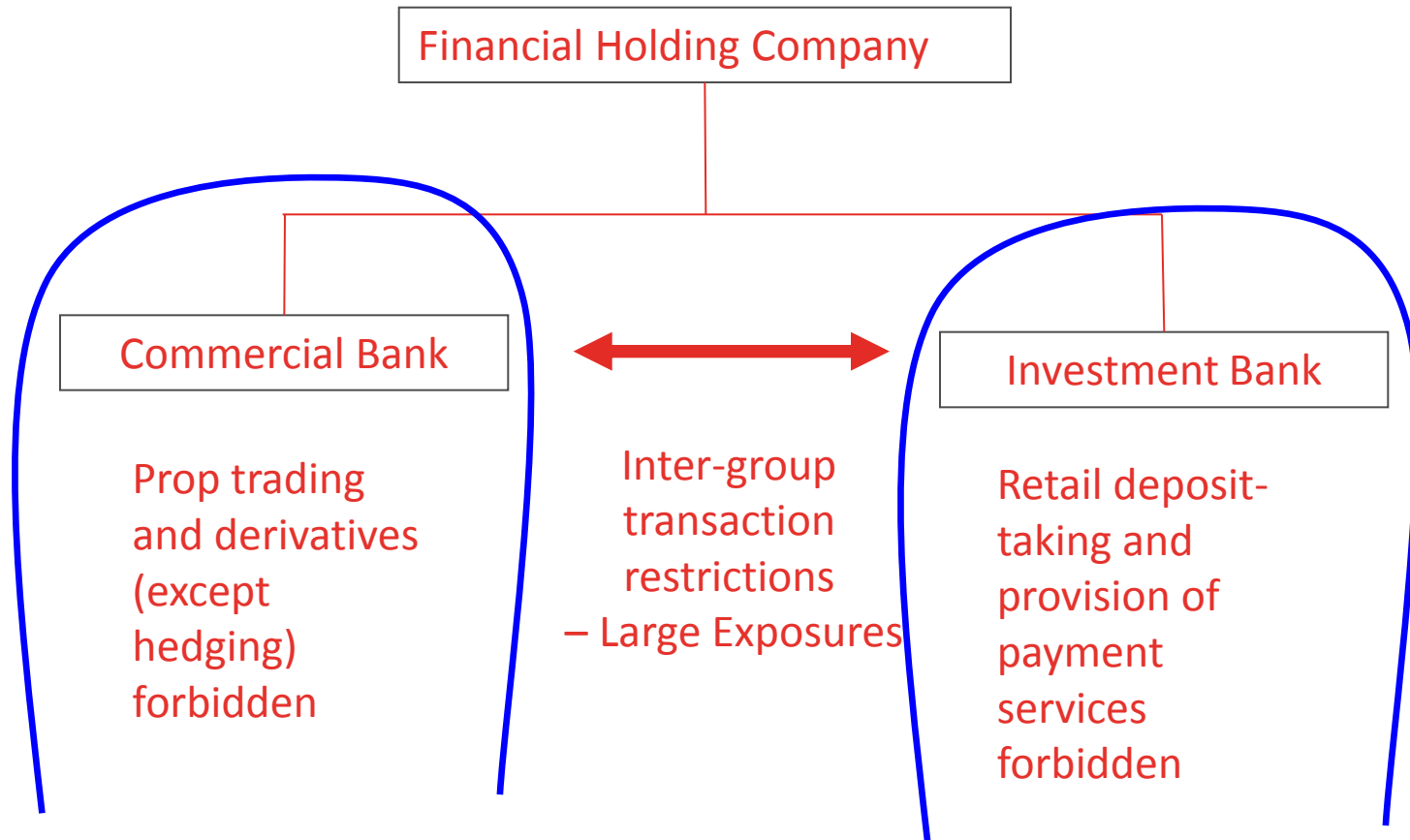
# Summary of US Bank Group Regulation



# Summary of UK Bank Group Regulation post Vickers



# Summary of EU Bank Group post Liikanen



# Vickers - Breaking up the Banks

Assets	Vickers	Liikanen	
Retail loans	commercial loans	wholesale loans	market assets
Liabilities			
Retail deposits	commercial deposits	wholesale deposits	market funding

# The Tsunami of Regulation

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# Panel discussion: Risk management challenges in a changing financial landscape

## Chair

### **Jason Straker**

Client Portfolio Manager, **J.P. Morgan Asset Management**

## The panel

### **Ben Perrin**

Treasury Risk Manager, **British Airways**

### **Mario Schmoltzi**

Treasury Manager, **Centrica**

### **Peter Walker-Smith**

Senior Treasury Analyst, **AstraZeneca**



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# Panel discussion: the treasurer's strategic focus for 2013

- Chair's introduction
- Panellist introductions and key strategic priorities for 2013
- Panel discussion



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# Panel discussion: the treasurer's strategic focus for 2013

Integrating treasury into business planning

- Treasury's role in protecting the business and facilitating growth

Prioritising long term vs. short term

- Being prepared to make the most of new opportunities while they're available
- The evolving role of the treasurer – strategic business partner or day-to-day operations

Highlighting some strategic issues for 2013

- Accessing new opportunities in emerging markets



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# Panel discussion: the treasurer's strategic focus for 2013

## Chair

**Michelle Price**

Associate Policy & Technical Director, **ACT**

## The panel

**John Holmes**

Fellow of the **ACT**

**Graeme Middleton**

Group Treasurer, **Honda Motor Europe**

**Christof Nelischer**

Global Group Treasurer, **Willis Group**

**Paul Rundell**

Group Treasurer, **Pentland Group**



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# Panel discussion: the treasurer's strategic focus for 2013

Integrating treasury into business planning

Prioritising long term vs. short term

Highlighting some strategic issues for 2013

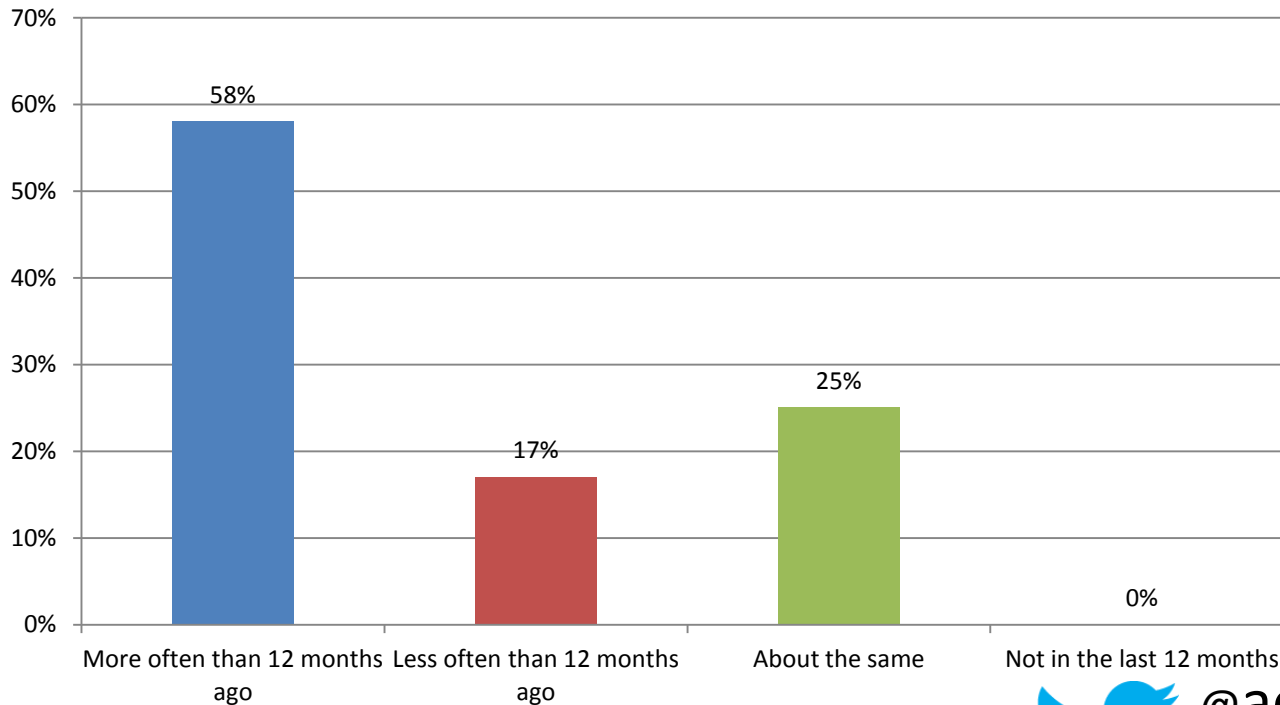


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# How regularly are treasury issues discussed by your board?



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# Panel discussion: the treasurer's strategic focus for 2013

Integrating treasury into business planning

**Prioritising long term vs. short term**

Highlighting some strategic issues for 2013



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Prioritising long term vs. short term

**Highlighting some strategic issues for 2013**

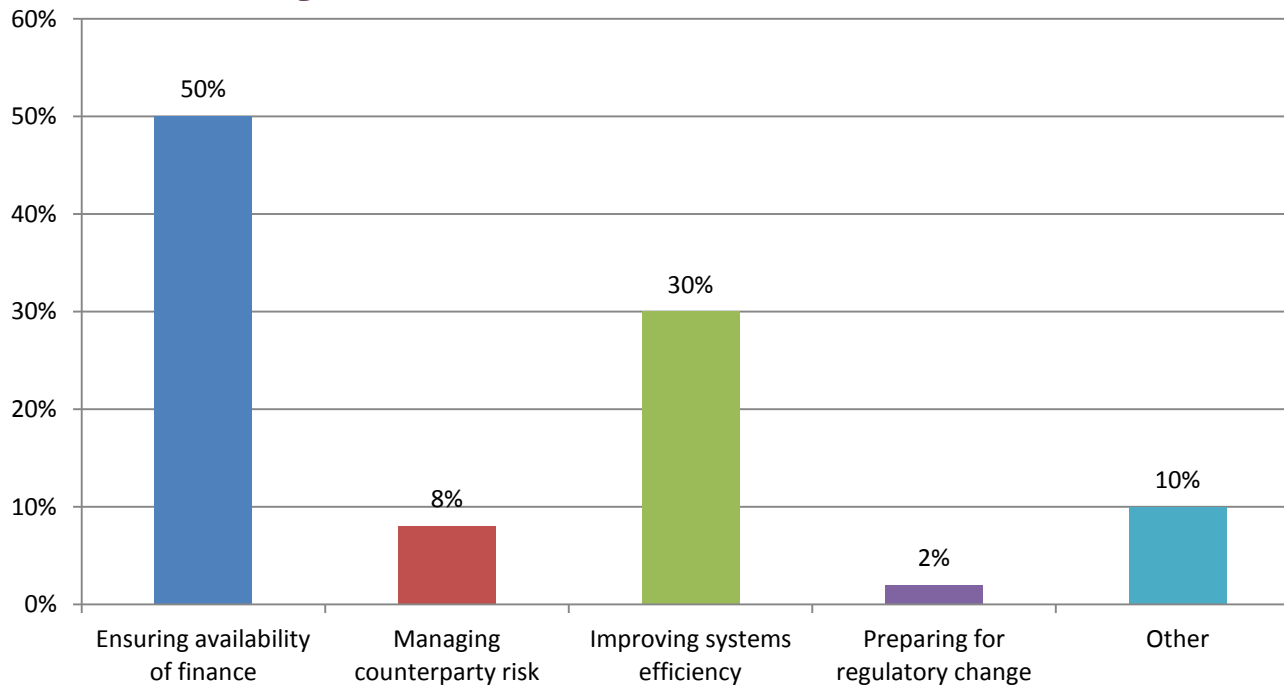


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# What is the top priority for your treasury team in 2013?



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