IACT conference addresses the credit crisis

26/27 September 2007, Four Seasons Hotel, Dublin

The 2007 conference on Corporate Treasury & Cash Management endorsed by the Irish Association of Corporate Treasurers (IACT) saw treasurers addressing the main issues of the day, notably the effect of the credit and liquidity crisis on the profession, and the general economic outlook for treasurers. Topics as diverse as global warming and pension risk were also covered at the two-day event.

The effects of the sub-prime market and the ensuing credit and liquidity crisis was the main talking point of the conference on Corporate Treasury and Cash Management.

Ian Ladd, vice president of group treasury at ICI, addressed the conference on how recent exposures have affected the market and the role of the corporate treasurer. Ladd began the presentation by pointing out the role of the treasurer in the current market, and highlighting where activities had been affected. Clearly, the task of ensuring funds are available and managing market risk were high on the agenda, given the current economic climate.

Ladd went on to detail the impact of the crisis on short and long term funding for treasurers. In the short term commercial paper markets, he pointed out that although funding was not available for A2P2, funding was still available in A1P1, with utilities and health care still funding at sub-Libor rates. The short term funding problems in the asset-backed securities (ABS) market had seen conduits funded at higher prices. One example of this was ICI's receivables securitisation, said Ladd, where funding had moved from Libor+0 to Libor+40.

Taking a longer term view of funding, Ladd argued that while pricing may be worse than three months ago, it is still better than three years ago. He also argued that the current rates on offer were 'not bad rates if viewed from a fixed rate perspective.'

The impact on investment would also be significant for treasurers, Ladd argued. He believed that the long-term upshot of the crisis for treasurers would be a more conservative investment strategy, and a more critical view of risk and return.
Looking forward, he thought that there would be renewed efforts at accurately stress testing for market disruption.

Economic outlook Simon Barry, senior economist, Ulster Bank added his thoughts on the economic outlook, with a treasury perspective. He pointed out the signs of the sub-prime crisis spilling over into the real US economy by examining US non-farm payrolls, which have seen a steep decline in the three month average up to August 2007.

Barry highlighted Ben Bernanke's prompt response to the situation by cutting the Fed's funds, but warned that this action has not stopped jobless claims rising, and the value of the dollar slipping further, with the euro reaching all time highs against the US currency. Barry outlined that the rising euro could be a problem for the economy. He ended his presentation by suggesting that with UK inflation now back below target, it may be an opportune time to buy sterling.

Pension risk
Another riveting discussion took place on the second day of the conference. A mixture of actuaries and accountants were on hand to discuss 'Asset/ Liability Management and Pension Risk.' Brian Griffin, senior investment consultant with Mercer, addressed the conference on the issue the nature of pensions risk and how it can best be managed. He put forward the argument that pension risk can sometimes be

the dominant risk for a company, citing the well-known example of British Airways in the UK, whose pensions fund is two and a half times its market cap, effectively making it ‘a pension fund with a few private jets.’

Sarah Smart of Standard Life Investments followed Griffin’s presentation by putting forward the reasons why a company should be concerned by managing the investment risk of a pension fund. The one clear reason is that companies have nothing to gain by not managing a pension fund well, and it is in the scope of trustees to coordinate investment and keep an eye on the company’s strategy.

Interest and inflation risk were the topics covered by the nest speaker, Thomas Farrell, actuarial product manager with Bank of Ireland Global Markets. He argued that both these risks impact on the issues of funding positions for a pension fund. If a pension fund is looking to hedge against inflation, Farrell argued, it is best to hedge against the Euro.
However, Farrell warned that company’s need to look at the cost and benefits surrounding the decision to take on this risk. He argued that there was a need to find a middle ground when matching exposures.

The group treasurer of ESB, Brendan Murphy, put forward the corporate point of view. He emphasised the fact that although it is clearly in the companies’ best interests to have a well run pension fund, the fund was still a separate entity from the company. He also raised the issue of correct valuation of the fund, whether it was the actuarial valuation, the funding valuation or the IAS 19 valuation.

One of the main talking points that came out of the question and answer session that followed the panelists’ presentations was whether investing in equities offered a suitable hedge against inflation risk. The group were in agreement that equities do not offer any real hedge against inflation. One of the main reasons was that much of Irish equity investment is not invested into Irish shares, rather into British and European shares, so as such offers very little cover against inflation. In addition to this, Smart pointed out that even in countries where domestic equity investment is considerably higher than in Ireland, equities and inflation are not highly correlated in any case.

Global warming
Another panel discussion on the final day of the conference saw a panelist walking off stage. Bill McGuire, director of the Benfield UCL Hazard Research Centre, was discussing the effects of global warming on the financial markets. In an opening speech, McGuire presented a grim picture for the future climate, and the knock-on effect that this would have on the global economy. He pointed to the precipitous location of a number of important financial and economic centres, such as Tokyo and Silicon Valley in California. McGuire expounded the view that dramatic climate change and impending natural disaster was a certainty in the not too distant future.

Jim Power, chief economist for Friends First, took on the role of rebutting this view. When he made his opening remark, that there was no scientific proof linking carbon emissions to climate change, McGuire took exception. The hazard specialist went as far as walking off stage as Power continued his argument. Only at the behest of discussion’s facilitator, journalist Karen Coleman, did McGuire unhappily return to the group.

(Reproduced courtesy of Finance Magazine)