# SHIFTING SANDS

In October 2012, Middle East treasurers gathered at the ACTME annual conference in Dubai to share their experiences of doing business in a rapidly changing world. Peter Matza reports

## TALKING TECHNOLOGY

### Day one

The third annual conference of the ACT Middle East (ACTME) opened with a first: an afternoon devoted to a technology workshop.

In an informative two-hour session, corporate treasurers and technology vendors addressed the IT challenges and opportunities that face treasurers in the Middle East through a series of quick-fire presentations. The audience was told that on the one hand, Middle East treasurers have the advantage of being able to introduce their organisations to technology without having to worry too much about existing legacy systems. On the other hand, they do have to consider legacy cultural and working practices.

Andrew McMichael, group treasurer of logistics company Agility, opened the session with an overview of the key considerations for corporates looking to move their treasury processes from manual to electronic methods. He was followed by Ahmad Nasser, group treasurer of conglomerate Al Fahim Group, who shared the key lessons he learned from integrating technology into his business and outlined the cost savings that could be made.

Then, for the first time at an ACT conference, there was a live demonstration of an FX trading platform by Alex Johnson, regional sales manager of 360T.

Next, Assaad Chalhoub, chief technical officer at treasury solution specialist Box & Automation Solutions, explained how treasurers could manage cash using forecasting and reporting tools, while Mike Bosacco, VP treasury solutions at SunGard, predicted how treasury would evolve.

Finally, a lively panel discussion took place on how business and technology could build an effective partnership.

During the workshop, treasurers debated their responses to problems such as 'what do you want to achieve with technology?' and 'how much technology, how quickly?'

## TRENDS IN TREASURY

### Day two

The second day of the conference opened with an electronic voting session to test the temperature of the treasury profession across the Gulf Cooperation Council (GCC). Some fascinating trends emerged, with 63% of respondents saying it was 'much' or 'somewhat' easier to raise funds than it was a year ago and nearly half (46%) confirming that cash management was the treasury department's main priority at present, above risk management (19%), control and compliance (13%) and funding (12%). Overall, 54% of treasurers are deliberately seeking more diverse sources of funding and 52% said their board had a balanced appetite for risk.

Conference chair Matthew Hurn, executive director, group treasury, Mubadala Development Company, painted a gloomy economic and regulatory picture for GCC treasurers, highlighting that even the Asian economies are

## SPEAKERS' TOP TIPS

**There was consensus from the speakers on a number of principles relating to the practical implementation of technology:**

- **A treasury management system should be the core of treasury technology, allowing for development and scalability. Other systems will follow.**
- **Creating the business case for investment in technology and obtaining senior/executive sponsorship are key roles for the treasurer.**
- **System security is very important and adds weight to the audit/governance trail.**
- **Understand the inputs and agree the relevant outputs at every stage; have key performance indicators for internal processes.**
- **Make sure your suppliers know what is expected of them and what they expect from you; the documentation is critical.**

**Treasurers must build effective working relationships with all treasury stakeholders to make a systems project successful; simply buying 'plug-and-play' technology will not solve poorly managed treasury processes.**

**Left to right:** Conference chair Matthew Hurn painted a gloomy economic and regulatory picture for GCC treasurers; Jeff Singer, CEO of the Dubai International Financial Centre Authority, outlined the reasons for Dubai's growth; delegates made the most of the networking opportunities at the conference **Below left:** 360T's Alex Johnson demonstrated an FX trading platform

showing signs of slowing growth. He said that in order to develop, the GCC needs a regional financial ecosystem. He also wants to see the ACTME start to influence the policies of the GCC governments.

### DIFC view

Jeff Singer, the CEO of the Dubai International Financial Centre (DIFC) Authority and former CEO of NASDAQ Dubai, made the keynote address. He gave a hugely entertaining and interactive presentation on the challenges and opportunities that exist in the current business environment.

Singer said that the DIFC and related entities have an advanced legal and regulatory structure compared with the 'normal' commercial laws and regulation of the United Arab Emirates (UAE). As a result, growth has come from the 'cluster/free zone' principle. The DIFC is now home to over 900 companies, but that's not the limit of its growth, he insisted.

Having been in the UAE since summer 2008, Singer said his time there had consisted of "the good, the bad and the ugly". He explained that Dubai's 'make it happen' culture had generated tremendous growth between 2000 and 2008 – the Dubai Stock Exchange was the world's fourth-largest exchange by market capitalisation in 2007, for example. But when the bubble burst, it came as a surprise to many that Dubai and the GCC were financially connected to the rest of the world.

The UAE can't function as an island, however, and Singer emphasised that the DIFC wants to engage with the treasury community to drive business development. Increasingly, he sees the role of the DIFC being to "increase financial liquidity for corporate development – and that's a promise". He asked the audience what the future of the UAE should look like and the response was clear. The audience wanted transparency, legal consistency, and well-defined government financial and economic development strategies.

### Rise of the renminbi

Next to take the podium were Sherie Morais and Janet Ming from RBS, the conference's lead sponsor. Morais is head of transaction services origination (Middle East and Africa) at RBS and Ming leads the bank's China Desk (Europe, Middle East and Africa).

They explained that the Chinese government wants to take its currency international to reflect the fact its economy boasts the world's second-largest GDP. While CNY is the onshore currency, CNH is the offshore, freely convertible currency, and together they make up the renminbi. The target year for full convertibility is 2020. Although Hong Kong will remain the main offshore settlement centre, the Chinese government is also encouraging more international hubs for renminbi (even Taipei). London is likely to become a major offshore centre for renminbi trading: already, 26% of renminbi spot transactions are carried out via the city. The DIFC may possibly become one of those hubs, too.

RBS believes that the next 10 years will be critical in the rise of the renminbi as a global trade currency. While GCC corporates are not yet users of the renminbi as a trade currency, its internationalisation is still relevant to them. This is because any corporate that does business in China, either today or tomorrow, will gain from the existence of a fully convertible currency. Also, being able to use the local currency will open up the domestic market for importers and widen the supplier base for exporters. Corporates should also consider taking advantage of centralised invoicing via Hong Kong for netting and FX management purposes.

### Liquidity outlook and Islamic finance

Liquidity management and Islamic financing were the subjects of a pair of fascinating presentations and a panel discussion that were supported by Al Hilal Bank, sponsor of track session A – *Treasury liquidity management*.

Aladin Al Khatib, executive vice president, treasury banking group, at Al Hilal, discussed the impact of global economic issues on regional banking and liquidity for corporates. He thought banks were very much focused on 2018 and the full implementation of Basel III regulation. Although the regional bank markets have been patchy, banks are generally available for corporate funding, he said.

In the UAE, banks have sold liquid assets (high-quality international government bonds) to fund their local loan books, but this is an increasingly expensive strategy due to UAE central bank regulations. In the Islamic market, liquidity and credit outlooks have improved and yields have fallen dramatically. Nevertheless, corporate usage remains modest, not just in the Middle East and North Africa (MENA) region, but across the global sukuk market.

Daniele Vecchi, senior vice president, group treasury, at retail developer Majid Al Futtaim (MAF) talked about his hugely successful $400m sukuk issuance in January 2012. (MAF triumphed in the ACTME Deals of the Year treasury funding category for this deal – see page 8.) He described the sukuk as "long 'credit insurance', where fixed income issuance is an exercise of a borrower's optionality".

## TAKING THE TEMPERATURE

**FINDINGS OF ACTME ELECTRONIC POLL OF TREASURERS AND BANKERS**

**22%** of treasurers found it harder to raise funds than they did a year previously

Cash management (for example, cash flow forecasting, liquidity management) was treasurers' top priority – cited by **46%**

**33%** of treasurers were concentrating more on relationship funders rather than diversifying their funding sources

Banking sector stability was treasurers' greatest concern – cited by **64%**

**76%** of corporate treasurers thought relationship banking was 'much more important' or 'more important' to them than it was a year previously

Percentage of banks in the Middle East that said their customers do not manage their business and financial strategies effectively was **21%**

**31%** of treasurers believed the risk appetite of boards is too cautious

Percentage of delegates that attended the ACTME conference to take advantage of networking opportunities was just over **50%**

Vecchi believes corporates need strategic funding plans that meet the following criteria:

- Conform to international governance and accountability standards.
- Maintain an open dialogue with all stakeholders, but especially all investors – equity and debt, conventional or Islamic.
- Rolling maturities, liquidity reserves and effective contingency plans for major corporate events.
- 'Optionality' in terms of accessing available markets when opportunities present themselves.

During the subsequent panel discussion, the panel endorsed Vecchi's approach and suggested that treasurers should press their boards to adopt this funding strategy and engage with the business's stakeholders to make it effective. Even the issue of 'negative carry' can be rationalised in terms of strategic 'committed' funding and effective business planning.

### Cash quandaries

A cash management track session (session B), sponsored by Barclays, preceded lunch. Here, the key message was that by taking control of business cash flow, treasurers could demonstrate efficiency, value (in terms of fees saved and working capital saved) and effectiveness to their CFOs and business units. Naturally, treasurers are concerned about how well the banking community works together, especially in emerging economies with their legacy of underperforming and inefficient cash management systems. Banks need to take action to address the challenges posed by the diversity of geographies, business practices and working habits (even such simple matters as having the appropriate operating hours). For treasurers, choosing the right partner or partners is essential.

The problem for treasurers is transparency of cash throughout their businesses – static cash not being used, or not even being recognised, is a serious negative when banks are less willing or able to lend finance. The priority is to have less 'static cash' and less 'accounting cash' and more 'treasurer's cash' to meet liabilities on a rolling basis. Cash forecasting plays its part, but it must also have clear objectives. Too often, forecasts are made and then ignored, rarely checked and almost never included in executive performance reviews. Smart treasurers will address that issue very early in their careers.

### Funding and risk

Separate track sessions in the afternoon debated *Funding and investment strategy* and *Risk strategy*.

In the funding session, sponsored by JP Morgan, delegates learned that, despite the considerable efforts of Islamic banks and governments, conventional funding for business still holds sway in the GCC. Hani Deaibes, head of Middle East debt capital markets at JP Morgan, offered treasurers some practical insight into how regional corporates can fund their businesses.

Brendan Boucher, group head of treasury at Petrofac, a UK-listed but Sharjah-based oilfield services business, had the following key suggestions to help treasurers successfully obtain funding:

- It is essential to clearly define your objectives beforehand (getting board approval is a given).
- Negotiate hard, but be prepared to be flexible to achieve your objectives.
- Credit ratings are still essential to maximise your organisation's flexibility in shaping its financial strategy. (But this may not be what your organisation wants to hear because getting rated requires transparency and open corporate governance.)

In the risk strategy session, delegates learned that risk management is no longer a series of fixed decisions about how an organisation functions – if, indeed, it ever was. According to James Lockyer, the ACT's director of development, the fluidity of politics in the GCC and MENA means that regional treasurers need to be innovative, flexible and ready to adapt business strategy for today's tough times. It is crucial to ensure that the board or executive team is fully aware of the need for, and execution of, risk policy, whether financial or operational.

A highly interactive panel session allowed treasurers to share their views on good practice. The main points that came out of the session included:

- Plan for the worst and hedge against that;
- Focus on the medium term;
- Know who you're doing business with; and
- 'As the facts change, change your view'.

**Above:** Delegates mingled in the conference exhibition hall