



The strategic partner

Treasurers are often invited to give expert advice to the board. Doug Williamson explains how to communicate your in-depth subject knowledge successfully

➤ The treasurer's role is becoming increasingly complex and varied. More boards are regularly consulting treasurers on financial matters. When you speak and write well, the board will not only seek your advice, they will also follow it.

Communication is key

To become a good treasurer, you need deep financial understanding and analytical skills, along with the ability to communicate your expert advice to an audience of non-specialists.

Transferable skills

A great way to improve your ability to explain financial matters is to apply your knowledge to real-life scenarios. This is the unique strength of the ACT's higher-level qualifications.

Perspective shift

Higher-level qualifications progress the knowledge, comprehension and application skills you have already learnt. The focus at this level is on analysis, synthesis, evaluation and effective communication. This means looking at everything you already know from another perspective.

You learn to:

- Formulate, select and justify solutions.
- Communicate effectively, in writing and in person, with colleagues, senior management and other stakeholders.
- Confidently recommend action and change.

Professional judgement

"The MCT develops your professional judgement to answer open-ended questions."

Ben Walters, MCT

MCT taster

Here is a recent MCT question that applies the strategic and tactical financial decision-making skills you need to become a trusted adviser at the highest level.

Your advice, please

Your company has just negotiated a £100m, 10-year Libor-linked credit facility to fund a step increase in production capacity. The loan amortises in equal instalments from year six to year 10, as for similar loans in the past.

The company's policy for interest risk management in these circumstances is to swap to fixed at the outset in order to protect the project return, so the return has been calculated on the basis of hedging at the current 10-year swap rate.

The FD believes that interest rates will continue at the current low level for some time to come and is therefore in favour of postponing a fix for the new facility, contrary to past practice.

Before sharing this belief with the chief executive, the FD seeks your advice, as treasurer, about how to implement his view without taking undue risk. Of particular concern is the need for a monitoring system to flag when action to hedge might be necessary.

Current interest rate data

Libor: three months = 0.5%

Swap rate: 10 years = 2.0%

Required: Would you support the FD in their preference to postpone the hedge? Explain your decision.

MCT General Exam, October 2013, Q4 extracts

The fix costs more

Fixing the interest rate with a hedging interest rate swap will cost the swap rate of 2%, plus the company's credit risk margin. Leaving the position open would be cheaper if interest rates remained unchanged for the next 10 years. At current market rates, we'd be paying only 0.5% plus the margin under the open position, rather than 2% plus the margin with the immediate hedge.

The fix is usually safer

If rates move against us, however, the open position might become more expensive. One advantage of hedging from the outset is to reduce interest risk of this kind.

To discuss other relevant issues, we may need to refresh our in-depth subject knowledge at this stage.

IN-DEPTH SUBJECT KNOWLEDGE

(1) Amortisation

The repayment or reduction of an obligation over time. For example, the repayment of loan principal by installments.

(2) Forward start swap

An interest rate swap that will begin in the future, rather than today.

(3) Swaption

An option to enter an interest rate swap on pre-agreed terms.

You decide

The question asks you for a decision. Would you support the FD's preference to postpone the hedge?

Answering yes or no won't get full marks. It wouldn't even score a pass, regardless of whether the examiner strongly agreed with your conclusion. You need to explain the reasons for your decision. Your reasons will score most of your total marks for the question.

ADORE

Simple structures are the best and most robust way to frame your answer. For example, 'ADORE', meaning:

- (1) Advantages;
- (2) Disadvantages;
- (3) Other issues; and
- (4) REcommendations.

We'll apply the ADORE structure to answer our hedge postponement question.

Response

(1) Advantages

The main advantage of postponing the hedge is the annual interest saving at current rates, approximately:

$$2\% - 0.5\% = 1.5\%$$

$$\times 100\text{m} = \text{£}1.5\text{m per year}$$

(2) Disadvantages

The disadvantages of postponing the hedge include the time costs of monitoring and managing the open position.

Also, the risks of:

- Market rates moving adversely;
- Potential breach of covenant;
- Exceeding the company's or board's risk appetite; and
- Potential failures in monitoring or management of the open position, through the company's relative inexperience.

(3) Other issues

The amortisation of the loan from year six means that the interest risk on the open position will reduce from year six onwards. Ways to reduce the risk, without fully hedging from the start, might include:

- A forward start swap; or
- A swaption.

(4) Recommendation

I would oppose the FD's view and instead recommend hedging now. In my view, the benefit of the cost saving is outweighed by the disadvantages discussed above.

This isn't the only possible response. Indeed, it's entirely valid to reach exactly the opposite conclusion and support the FD's preference to postpone the hedge. But, in either case, you must explain why.

We'll take your advice

Will your well-reasoned advice be followed? My experience is that it will be. I confess I was pleasantly surprised the first time a chief executive told me: "I'll follow your advice." Don't worry, you will soon get used to it.

Overwhelming acceptance

"The acid test of any treasurer's communication skills is whether the board acts upon their advice. Overwhelmingly, and continuing the trend noted in 2013, boards accept advice from their treasurers across almost all types of debt funding."

The Contemporary Treasurer, 2014

Your seat at the top table

Developing and demonstrating these high-level behavioural skills, as well as technical skills, is your gateway to the most sought-after senior finance roles. It's worth noting that 91% of MCT graduates move into a more senior role after they have completed the qualification.

For more tips on presenting to the board, see **page 46** of this issue and an article from our February 2013 issue that is available at www.treasurers.org/node/8749

HELP FOR ACT STUDENTS

Download previous articles from this series and other useful study information from the Exam Tips area of the student site at study.treasurers.org/examtips



Doug Williamson FCT is an MCT prize winner and project supervisor