Seizing the opportunity

PETER MATZA REPORTS FROM THE INAUGURAL ACT MIDDLE EAST ANNUAL CONFERENCE.

In many ways the first ACT Middle East Annual Conference, sponsored by RBS, was an extraordinary event bringing together treasurers and chief financial officers (CFOs) from many of the leading companies and organisations in the Gulf region, advisors, banks and bankers and the wider financial community, including local financial and general press and media. Over 190 delegates participated in a variety of plenary and streamed sessions on topics ranging from corporate governance and foreign exchange (FX) risk to centralised treasury systems and cash management priorities. While some of the tension with respect to the recent travails of business in the Gulf – especially in property investment – has eased, treasurers are acutely aware that 'business as usual' now means a greater sense of appropriate financial management pervades business activity across the region.

INTELLECTUAL FORCE The opening address from Sultan Bin Nasser Al Suwaidi, governor of the Central Bank of the UAE, set a challenging intellectual tone to the day's proceedings. The governor's view was that although the financial crisis had impacted the region in some specific sectors (and local deposits remain guaranteed), generally the regional financial markets had remained composed. Credit growth was constrained but banks are reasonably well capitalised for current and Basel III provisions. Economic growth had returned and the expectation is that – at least for the UAE – this will be slower and more sustainable development. Future credit expansion is likely to be more closely controlled with regulations in the pipeline intended to cap the credit portfolio of banks once they reach a certain limit.

The governor was kind enough to respond to a question and answer session and suggested that the AE dirham/US dollar peg had served the UAE well and that further work was required on Gulf Cooperation Council (GCC) monetary union although the EU experience had been instructive. In response to a question on local/regional bank mergers, the governor confirmed that currently there is no GCC mechanism to facilitate cross-border mergers of banks – an answer that perhaps opens up further debate! The governor encouraged treasurers and finance professionals to

contribute to the development of the wider financial community in the GCC and the ACTME intends to be at the forefront of this process.

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CORPORATE GOVERNANCE The main debating session of the morning was a panel discussion on a topic covered extensively in *talkingtreasury* sessions in the region: corporate governance.

The financial crisis exposed serious weaknesses in corporate governance and there is certainly a need for corporate policy and leadership. In broad terms, corporate governance should be viewed as a value proposition for an organisation, its owners and its management.

For their part, treasurers should be prepared both to be accountable for their own activities and to engage with their boards on financial and business strategy – whether in specific areas such as managing counterparty limits with their banks or in more general areas such as the balance between capital allocation and reward. A 'show of hands' by the delegates confirmed the commitment that they had to ensuring this topic remains high up the corporate agenda

RISK MANAGEMENT The first track of presentations considered various aspects of risk management, in liquidity management, FX risk and funding strategy. The key issue here is for treasurers to be in possession of as much information about their organisation as possible – to ensure that the board is offered a comprehensive analysis of various courses of action. Clearly this is a challenge in the GCC where risk management reporting remains a nascent science. In FX, for example, treasurers need to be aware of the real exposures in a business before looking at taking any hedging decisions. Treasurers, however, cannot own the underlying business exposure – that remains with the operating units – but will own the mitigation/management process.

The consistent advice given to delegates was for treasurers to always be clear in their communications about risk, exposure and outcomes with executive management, business units and other stakeholders, where appropriate (see box).

The parallel series of track presentations focused on treasury management and operational issues and three main areas of management concern:

- financial control enabling efficient liquidity management;
- risk management; and
- resources and investment in systems.

While there are arguments on both sides a consensus emerged that companies should avoid slavish adherence to centralisation and strike a balance that works and allows for some cost and efficiency savings. It was felt crucial that the CFO/CEO needs to be on board to cut through territorial protectionism within organisations.

Some warnings were offered about understanding different levels

Box: Six steps to effective exposure management

1. Understand the fundamental exposure (e.g. FX or funding shortfall)
2. Obtain reliable, consistent data
3. Clear ownership of the impact
4. Teamwork – bring the experts together
5. Clear measurement and reporting (including impact of 'do-nothing')
6. Strong policy and clear procedures

of business development and the appropriateness of introducing treasury management systems.

First any treasury system must cater for the different needs of technical accounting, business cash commitments and medium term development. Second people were generally conservative when forecasting cash flow so layers of contingency make it tough to forecast requirements.

Although implementing treasury systems can clearly help with these issues, young and/or fast-growing organisations may need to have a period of stability to reap the full benefits of electronic treasury management.

TREASURY MANAGEMENT After an excellent lunch and networking in the exhibition hall, the afternoon plenary sessions offered the perspectives of a leading CFO and senior banker from conference sponsor RBS.

- **Yuvraj Narayan**, CFO, DP World, looked at treasury management from his perspective. Whilst unsure of the development of the current economic cycle he stressed the critical importance of treasury planning within overall business strategy. From the CFO office, he expects treasury to have good navigational aids to manage the business, to be more alert to risks and to assume the worst (it will probably happen!). Credit availability is tight and priced accordingly and hedge economics have changed for the same reasons. On an operational level, it is critical for treasurers to maintain liquidity and control cash and have robust funding plans. Treasurers also need to manage relationships to ensure continued support from banks, investors and other stakeholders.
- **Simon Penney** from RBS talked to the audience about getting the most from a treasurer's banking relationships. In particular treasurers should be asking difficult questions of their banks about their willingness to supply credit and credit-related products for financing and hedging. By the same token Penny suggested that banks may have much to offer in advisory services for businesses expanding into new markets or for those organisations seeking new investors.
- **Trevor Williams**, chief economist, Lloyds TSB Corporate Markets, is well known to the ACT and his 'debut' for the ACTME was as entertaining and insightful as ever. He gave a quick-fire overview of the world economy and drilled down to matters of critical regional interest. His view was that economic growth across the region will be sustainable at 4-6%pa based on modest inflation, low interest rates in line with the US dollar and modest growth in hydrocarbon prices sustaining public expenditures and tax revenues.

The lively panel discussion that closed the conference had two important warnings for treasurers in the region: first, not to believe that interest rates would always remain low (despite Trevor Williams' point above) and second, that there is a need for treasurers to help develop local and regional capital and securities markets to fund future public and private sector business growth. This applies to conventional and Islamic finance markets alike. Treasurers have an opportunity to shape business development in the region and should seize their chance.

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The conference was followed by the equally well-attended Gala Dinner celebrating both the ACTME Deals of the Year Awards and student achievement awards. For more information please visit www.actmiddleeast.org/awards