

Treasurers Perfect Storm

Whilst newspapers, commentators, and leading "experts" look for the best clichés to describe the current global environment, the Treasurer is now operating in an environment the likes of which has rarely, if ever, been seen before. Cyclical swings in market rates, currency devaluations, rapidly changing interest rates and commodity prices have always been a reality of treasury life. The disappearance of most of the big institutions on Wall Street, combined with a global banking crisis that gets worse by the day is however new to all of us.

The implications pose a major threat to the very survival of many corporates.

■ Financing

For many companies the "oxygen" has been turned off and despite high levels of publicity the lack of financing facilities is a major cause of concern for small, medium and indeed large enterprises.

Even the strongest categories of borrower are seeing pricing today that a year ago would have been inconceivable.

The days of easy access to cheap financing are gone – the priority now is to get access to financing and at a cost which will not put you out of business.

■ Cash and Working Capital Investment

It has always been the case that "cash is king" but this fact is only now being realised by many firms. **There is a compelling case for squeezing every Euro from the business and managing working capital in a manner that reduces dependence on external financing sources.**

In my experience it is those companies that experienced financial difficulties and yet survived that have fully understood this key principle. The Treasurer must have visibility of, and control over, all balances in all accounts within the company. This is especially true for Group companies with overseas subsidiaries. In these times compromise is non negotiable.

■ Investment Management

Even those companies fortunate enough to have money to invest face significant challenges. Seeing people queuing on the streets of Britain to withdraw money from a bank was something we thought was confined to history. As governments and policy makers struggle to put a floor under the current downward spiral the Treasurer must safeguard the liquid assets of the firm. The priority has to be in the following order:

- security of capital
- liquidity of funds
- acceptable return

This has always been the case but many firms and individuals ignored this and sought to "maximise return". We are now witnessing the painful fall out from that approach.

■ Corporate Governance

It is inevitable that there will be increasing focus on corporate governance. Does the Board really know and understand what is happening in treasury? Does the Board actually understand the risks that are being managed and how they are being managed? Is the policy approach consistent with the company's philosophy on risk management and does strategy development and implementation support this? If a company is at risk of going out of business because of movements in exchange rates or interest rates then how was this risk communicated and managed?

My fear is that we will again see statements stating that "the outcome was the result of unfavourable movements in exchange rates and interest rates over which we have no control".

If this happens then the Irish corporate treasury profession will have stepped back to where it was over 20 years ago.

The treasurer does not control movements in exchange rates or interest rates – however they play a vital role in determining a company's risk management approach and ensuring that the company is protected against the worst case scenario.

The Challenge

Corporate Treasurers have always been at the forefront of risk management within their organisation. Whilst most people are (understandably) consumed with the doom and gloom and the major problems faced, ***the Treasurer should realise that now is perhaps the greatest opportunity they will ever have to make an outstanding contribution to their company and its very survival.***

Roll on the Perfect Storm!!

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