The Association of Corporate Treasurers

Comments in response to
Treasury management by housing associations
The Housing Corporation
July 2006

October 2006

The Association of Corporate Treasurers (ACT)

Established in the UK in 1979, The Association of Corporate Treasurers is a centre of excellence for professionals in treasury, including risk and corporate finance, operating in the international marketplace. It has over 3,600 members from both the corporate and financial sectors, mainly in the UK, its membership working in companies of all sizes.

The ACT has 1,500 students in more than 40 countries. Its examinations are recognised by both practitioners and bankers as the global standard setters for treasury education and it is the leading provider of professional treasury education. The ACT promotes study and best practice in finance and treasury management. It represents the interests of non-financial sector corporations in financial markets to governments, regulators, standards setters and trade bodies.

General

The ACT welcomes the opportunity to comment on this matter. Contact details are provided at the end of this document.

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Your paper requested comments on your general approach and on 3 specific aspects of treasury management. We have not commented on one of these items, the classification of associations for treasury management purposes, believing this to be a matter of governance outside the scope of our understanding of your regulatory process. However we would expect the classification to reflect an appropriate level of knowledge and understanding of treasury management at each association. In this context it is worth noting that the requirements of MiFID (Market in Financial Instruments Directive) when implemented next year will put a requirement on the providers of swaps and derivative instruments to assess the suitability and appropriateness of these instruments for their customers.

For ease of reference we have responded directly to the questions you have raised with additional comment where appropriate.

- *Basic expectations in respect of treasury management by housing associations (HAs)?* We fully support the requirement for all HAs - irrespective of classification - to have sufficient professional skills at Board and executive level to manage <u>all</u> treasury matters including risk. We would support any initiatives to increase the number of treasury and other financial professionals involved directly in HAs and in regulatory oversight.
- *Should the total outstanding debt and nominal amount of derivatives always be measured at group level?* . Ultimately, it is at Group level that the limits on use of derivatives as compared to debt levels needs to be applied, however it cannot be totally ignored at subsidiary level. Where a subsidiary is a separate legal entity, the directors of that entity must satisfy themselves that they are operating in an appropriate manner in relation to their external and inter-company financial relationships. Additionally we would recommend that financial information be maintained at subsidiary and group level to meet statutory accounting and reporting standards
- *Should currency swaps be used to remove immediate exposure to funding in foreign currencies and should the currency choice be proscribed?* Our view would be that where currency funding is considered appropriate on a value basis, hedging should be undertaken to remove exchange rate exposure. We would recommend however that only OECD currencies should be considered for funding to ensure access to liquid, widely traded markets
- *Are the proposals for regulatory engagement appropriate?* We would recommend that your proposals for regulatory oversight would be enhanced by ensuring greater awareness of the KPMG ‘Good Practice guide to Treasury Management for Housing Associations’. In particular the Corporation might consider whether local Board level approval of the guide should be made a part of ‘best practice’ corporate governance for HAs such that adherence to the guide would be a formal element of the regulatory process.

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