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Using this guide

This guide provides clear definitions of treasury management, a policy statement, tools to support boards and staff, as well as questionnaires to work through specific issues. Once you have read this guide, use the pertinent appendix to work through any issue you want to address, such as:

- Treasury management practices: how to deliver the policy (an example policy statement can be found on page 5)
- Board Members - quick checklist: a good aide memoire or to use as the framework for training
- Checklist of questions for the Board: a more in-depth look with specific questions for each area of treasury management
- Hedging instruments – derivative rule change review
- Common definitions – to use in a glossary of terms

Introduction

Treasury Management is an important part of a housing association's business. An effective Treasury Management Policy includes the prudent management of a housing association's loan portfolio, together with the associated risks and active management of the relationship with perhaps a range of funding institutions.

This guide provides a brief overview of treasury management. It specifically aims to support Board Members or those Members who have responsibility for overseeing and establishing an appropriate risk framework for the treasury activity. This guide is not a practitioner's guide but it may be helpful to those new to the sector and Treasury Management. Attached at the end of this guide is a Checklist for Members, which summarises the key risks which the Board will need to ensure are adequately addressed as part of their overall approach to treasury management.

In 2010, housing associations in England predicted that they would draw down over £26 billion of new facilities to 2015. These funds would be used to complete the Decent Homes programme, provide further improvements to existing housing stock, develop new housing properties for rent and fund stock transfer programmes, although these are at a much smaller level than in previous years. Current economic climate and the new steer from government around housing may change these predictions but the scale of the funding required will not go away.

The Social Housing sector continues to grow and is very diverse with over half of these associations managing 250 homes or less, 10,000 or more homes are common in the larger associations and a growing number have 50,000 or more homes. Housing associations are increasingly becoming involved in diverse activities (beyond the normal definition of social housing). These activities may require both expert knowledge and customised funding structures to meet project specific needs and more sophisticated risk management techniques.

Until recent years, the social housing sector has benefited from a stable economy and a low interest rate environment. Recent turmoil in global financial markets has changed the level of risks and has required a higher level of knowledge of treasury management. The lenders have realigned their requirements to match the increased risks they are facing; margins have increased, loan agreements are more demanding. Some lenders have left the market and new funding is tougher to negotiate. Development alliances, joint ventures and other legal structures have brought in a level of complexity to the sector; such complexity requires more treasury expertise.

What about the future? One of the emerging issues for the housing sector after the 2010 comprehensive spending review is capital structure and therefore the cost of capital and potential financial viability of housing associations. It is clear that without grant, housing associations will become increasingly more highly geared and early financial modelling carried out suggests that large or developing housing associations could run out of borrowing capacity unless they change the path of their business significantly. The potential of equitisation now commands more and wider relevance for the sector and if this really is an issue, it raises the question of capital structure and the cost of finance.

Treasury management – what is it?

Defining treasury management varies depending upon each organisation’s activities, the range of funding options available and may include for example:

‘The management of the organisation’s investments & cash flows, its banking, money market and capital market transactions and loan management; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks’.

‘Treasury management refers to the set of policies, strategies and transactions that an organisation adopts and implements to raise finance at acceptable cost and risk, to manage its cash resources, and to reduce interest rate, (foreign exchange and commodity price risks where appropriate) as well as in the conduct of its relationships with its financial stakeholders’.

Regardless of the precise definition, the housing regulator expects each housing association to adopt comprehensive written policies which are subject to regular review (source: Tenants Services Authority – Treasury Management for Housing Associations – Good Practice Guide, appendix A1 Reporting Requirements).

The Welsh Assembly Government requires Welsh Associations to have “a treasury management strategy covering borrowing and investment which minimises exposure to risk” (source: Regulatory Code 2006 – Welsh Assembly Government)

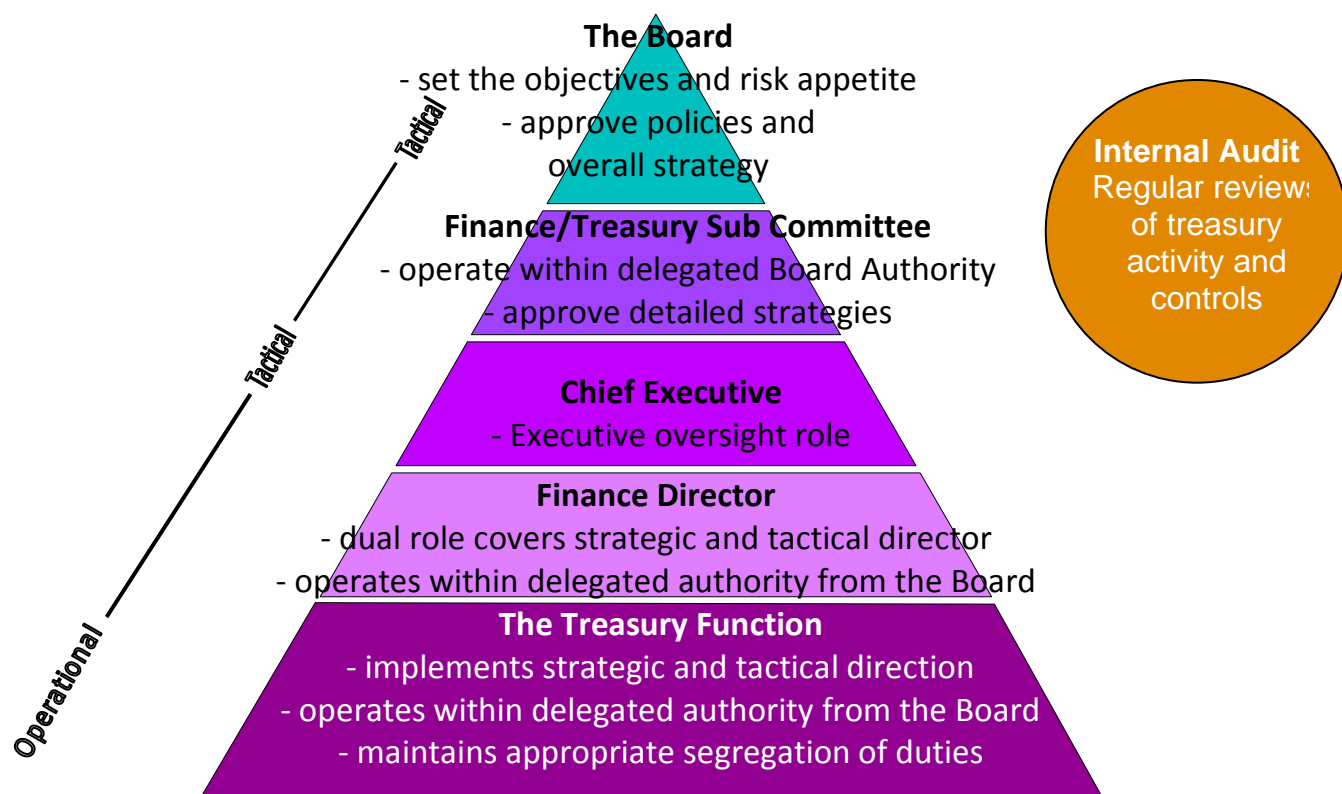
These documents clearly place responsibility upon the housing association’s Board to ensure that there is adequate awareness and understanding of these risks at both governing board level and officer level. They also require that associations employ appropriately qualified and experienced staff. The Board is responsible for ensuring the formulation and implementation of treasury management policy and procedures and appropriate controls and to this end, the following documents provide further guidance.

Title	Date
Treasury Management in the Public Service - Code of Practice and Cross-sectional Guidance Notes (CIPFA)	Issued: 2009
Treasury Management for Housing Associations – Good Practice Guide (The Tenants Services Authority)	Issued: Mar 2009

An appropriate treasury management strategy will take into account the environment within which the housing association operates, the framework established by the Regulators and good practice which ensures risks are systematically evaluated and appropriate controls developed. The strategy will also be tailored to the housing association’s specific needs and business plan requirements: this is critical to ensure treasury management is managed appropriately. Different organisations will have different ‘risk appetites’ which may change over time. Therefore, a ‘one-size fits all’ treasury strategy is not appropriate and the Board needs to ensure that their housing association’s particular circumstances and interests are adequately covered.

Governance – are you in control?

There is a clear expectation that the Board will ensure that treasury risks are identified and their potential impact assessed and that the organisation possesses appropriate knowledge and skills. The diagram below illustrates how responsibility for treasury management may typically be structured.



By adopting a structured approach to treasury management, it enables the Board to establish parameters within which the treasury is to operate and the principles to be applied in controlling this activity. The framework established by the Board needs to reflect the scale of treasury activity and the risks, and may include policies, procedures, financial regulations, individual authority limits and reporting mechanisms.

There are four recognised key principles, outlined below, which should be central to any treasury policy statement. These principles clearly reflect a risk minimisation attitude towards the treasury activity and the Board need to ensure their own policies reflect this approach. Indeed, in England the Board are required to confirm annually to the Tenants Services Authority, through the Self Assessment Compliance Statement, whether they comply with all aspects of Section 1 of the Regulatory Code (Finance and Viability).

- 1 Compliance – with statute, regulation and best practice
- 2 Security – of financial assets
- 3 Liquidity – ensuring adequate resources to meet obligations
- 4 Effectiveness and Efficiency – in the use of financial resources and achieving value for money

The Board should review and approve annually the housing association's Treasury Management Policy Statement and Treasury Management Practices. Together these two documents substantially provide the framework for the treasury activity. Highlighted at the end of this guide are some of the key questions which the governing board need to be assured are adequately addressed as part of their organisation's treasury activity.

Treasury management policy

Even associations with very small loans portfolios need to review their cash and loan policies and practices on a regular basis. As mentioned earlier, all governing bodies should annually consider and agree a Treasury Management Policy Statement, an example of which is set out below. CIPFA members should adopt its Treasury Management in the Public Service Code of Practice.

Treasury management policy statement

The Association defines its treasury management activities as:

The management of the Association's investments & cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

The Association regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Association.

The Association acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

A Treasury Management Practices document should support the policy statement by setting out how to deliver the policy. Whilst some standard items are required, several are entirely dependent on the type and scale of the loan portfolio involved.

Treasury management practices

The following headings are the key features members should be looking for when checking how the housing association will deliver the policy. More details can be found in an expanded version at the end of this guide.

- 1 Treasury risk and management
- 2 Performance measurement
- 3 Decision-making and analysis
- 4 Approved instruments, methods and techniques
- 5 Organisation, clarity and segregation of responsibilities, and dealing arrangements
- 6 Reporting requirements and management information systems
- 7 Budgeting, accounting and auditing arrangements
- 8 Cash and cash flow management
- 9 Money laundering
- 10 Training and qualifications
- 11 Use of external service providers
- 12 Corporate governance

Treasury management risks

Due to its very nature and to the size of transactions undertaken, the management of the treasury function creates additional risk for the organisation. The Board needs to ensure that the risks are properly identified and evaluated; appropriate management strategies and financial risk management techniques are deployed to manage those risks; and that the Board can gain assurance that through continued monitoring such controls remain effective. Detailed below are some of the key risks faced by a housing association's treasury operations.

Interest rate risk

Interest rate risk exposure arises when a change in interest rates has the potential to affect the value of a housing association's assets and liabilities. As most housing associations are net borrowers, their single largest interest rate risk will be the servicing of debt. For those housing associations with too much variable rate debt, increasing interest rates mean higher interest payments and repayment costs. On the other hand - for those housing associations with too much fixed debt - a fall in interest rates would result in opportunity losses because the housing association cannot benefit from improving interest rates. There is no longer a strict correlation between base rate, LIBOR and long-term rates (a few years ago, a measure of base rate +x% was often used as a trigger for rate management). A greater watch is required to ensure interest payments are minimised at the same time as exposure to interest rate risk. More flexibility of fixed to variable percentage may be required, depending on the level of staff skills in managing that risk.

If a housing association has cash invested, it can be exposed to the risk that interest rates will decrease and impact on the size of the yield from its investments. Another source of interest rate risk therefore lies in the housing association's holdings of interest-sensitive investments. Thus, interest rate exposure is the risk of reduced cash flow, either in the form of diminished cash inflows or increased cash outflows. The main danger resulting from interest rate risk is that a housing association could face liquidity problems. In the worst-case scenario, loan covenants such as minimum interest cover ratios (net operating income/net interest payments) could be breached by rising interest rates.

Inflation risk

The effects of varying levels of inflation impact on a housing association's treasury management activities through their link with interest rate management. This is because the cost of fixed rate finance is wholly dependent on the rate of inflation. A housing association's rental income and operating surpluses (the amounts available to pay interest) depend on the rate of inflation so if these increase by less than forecast while fixed rate loan costs remain as forecast, there is a real cost to the housing association of low inflation.

Liquidity risk

This is the risk that a housing association will have insufficient cash to meet its liabilities as they fall due. Housing associations need to ensure that they are always in a position to meet their cash outflows as and when they occur. This usually means having sufficient liquid funds available, typically in the form of cash balances held on deposit, overdraft facilities, committed loan facilities and other liquid assets.

Cash flow forecasting is integral to effective and efficient treasury management and there is a risk that cash flow forecasts do not predict accurately how much excess cash is available to invest or when borrowings are required.

Funding refinancing risk

This is the risk that when loans fall due, the housing association does not have the cash resources to repay, and they cannot be replaced at an acceptable cost. Bunching in a housing association's loan maturity profile increases refinancing risks, whilst overdependence on one lender who leaves the market is also a risk.

Counterparty or credit risk

This is the risk that a housing association incurs a loss if a counterparty or debtor defaults on an obligation. There are two main aspects to this risk.

Firstly, there is the risk that the housing association has deposited surplus funds with an organisation that does not repay the monies. This aspect of the risk should be controlled by the approval of formal lending criteria based on the nature of the counterparty (either regulatory status or credit rating), maximum amounts to be lent (in monetary value and proportion of total lending), and period of deposit. Use should also be made of available market information.

Secondly, there is the risk that an organisation that is due to make a payment to the housing association under a contractual agreement (e.g. loan facility or derivative agreement) may default on its obligation, or - in the case of a long-term loan agreement - may be less than cooperative if the housing association needs to renegotiate the loan.

It is important to recognise that counterparty risk is not just limited to the non-payment of monies owed. It also encompasses late payments and partial (rather than full) payments, both of which can have as detrimental an effect on a housing association's cash flow as non-payment.

Soft covenants

It must be borne in mind that a loan agreement can be broken, not just by a breach of covenants, but also by failing to meet deadlines, clauses or by failing to provide documentary evidence. It is now usual for companies to set up a calendar with all loan requirements and trigger dates for compliance such as insurance schedules, 5-year stock condition survey, annual valuation and quarterly returns.

Failure of internal controls/systems

This risk of inadequate systems of control, reporting and performance measurement is not specific to treasury management. However, the value of the sums involved and the specialist nature of much of treasury management means that this risk is significantly greater in this area than in other areas of a housing association's operations. In a systems context, there is the risk of misappropriation of funds through fraud or error. There is the risk that funds will be directed fraudulently from the housing association's accounts to an unauthorised recipient using the payments system. Whilst the high value of transactions processed by a treasury team means that even a straightforward error, such as delayed or incorrect processing of transactions by the banking system, may lead to significant losses and potential breach of loan agreements.

Security trustees

It is now common to have all your assets held by a security trustee. A security trustee is the entity holding the various security interests created on trust for the various creditors, such as banks or bondholders. This structure avoids granting security separately to all creditors which would be costly and impractical.

Cross collateral and inter company loans

Risks can be shared across more than one entity within the same group, as long as the legal framework of the group allows it. For example, when a loan made by one company of the group to another company within the same group or where an asset in one company supports the loan of another company.

Risk relating to groups

There should be a clear risk map of the potential exposure to risk due to the inter-company relationships within a group and how such exposure can be mitigated through the group's legal framework.

Political, regulatory and legal risk

These risks refer to the possibility that the housing association or its counterparties may be prevented from fulfilling their obligations or intentions due to political, legal, regulatory changes or restrictions. As associations in England in particular adjust to the policy changes and regulatory changes associated with the new Government at Westminster, this area of potential risk may come more to the forefront of associations' planning.

Currency risk

Currency risk is due to fluctuations in exchange rates. The risk that a company's operations or an investment's value could be affected by changes in one currency's value relative to another that could lead to a loss in value of assets denominated in foreign currencies.

Hedging instruments and wider rule change

Although this is no longer a mandatory 'rule', the process and framework are useful and set out below. The derivative rule change review document formerly used by the regulatory body, can be found at the end of this guide.

Derivatives are financial contracts designed to create price exposure to an underlying commodity, asset, rate, index or event. In general, they do not involve the exchange or transfer of principal or title. Rather their purpose is to capture, in the form of price changes, some underlying price change or event. The term derivative refers to how the price of these contracts is derived from the price of some underlying security or commodity or from some index, interest rate or exchange rate.

Whilst the appropriate use of derivatives can play an important part in a housing association's management of interest rate risk, it can equally if misunderstood significantly increase the risk and fall foul of the Regulatory Code. Derivatives must only be used to reduce or manage interest rate risk. It is critical the Board ensures that policies, procedures, controls and monitoring exist in order for derivative transactions to be appropriate and in accordance with the Board's approved interest rate management strategy.

Most housing association loan arrangements/agreements will incorporate interest rate options, enabling the housing association at specified times to convert variable interest rate debt to fixed rate debt for specific durations. This type of embedded arrangement does not require the housing association to adopt any rule change, however the Board should fully understand the implications of entering into an embedded interest rate transaction and that it is in the best interest of the housing association and understand the associated risks.

Housing associations requiring more sophisticated hedging tools to manage their interest rate exposure may also utilise stand-alone derivative transactions. However, their use is limited to those housing associations that have an express enabling power within their constitution to ensure its legal validity. The Board will need to seek independent legal advice and go through a number of approval processes to action the necessary change. The Board should seek its own advice to establish whether it has the necessary approvals before entering into any stand-alone derivative transaction.

The Board will need to be satisfied that policies, procedures, and internal controls are sufficiently robust to ensure that the use of derivative instruments can be properly managed without increasing the risk to the housing association. In the past, the regulator made an independent assessment of the housing association's ability to use derivatives through completion of an application questionnaire which the housing association had to submit as part of the approval process (please see appendix hedging instruments – derivative rule change review). Once a housing association has achieved the necessary legal approvals per its constitution, the Board must ensure derivative instruments continue to be managed within the approved framework and their knowledge is sufficient to discharge their duties.

There is a requirement to be able to model such complex instruments and include them in the financial planning process and risk scenarios.

With regards to the interpretation of financial statements and reporting, a higher level of technical skills will be required not least because of the growing requirements of FRS 26 (IAS 39) 'Financial Instruments: Recognition and Measurement' to comply with the convergence under UK GAAP. For example, fair value accounting is likely to lead to greater volatility through the income and expenditure in medium term. Those with bonds will need to comprehend the probable complexity of being a tier 1 organisation (IFRS - future of UK GAAP).

Housing associations which have adopted the wider rule change and have appropriate systems in place to manage derivative transactions will be permitted to undertake the following:

Interest rate swaps

A swap contract is an agreement between two parties to exchange a series of cash flows generated by underlying assets. No physical commodity is actually transferred between the buyer and seller. Because swaps do not involve the actual transfer of any assets or principal amounts, a base must be established in order to determine the amounts that will periodically be swapped. This principal base is known as the 'notional amount' of the contract.

A Swap is not a lending facility. It is an interest rate management tool that can be used in conjunction with any variable rate lending facility, including a facility with another lender. A housing association's underlying lending facility will continue to be governed by the terms and conditions set out in your facility agreement. It is also important to remember that a Swap only affects the base interest rate applicable to your underlying lending facility. It has no effect on any acceptance or other fees and margins payable under that facility. A housing association will remain obligated to pay those fees and margins no matter what happens with the Swap.

Forward rate agreement (FRA)

A FRA is a legally binding agreement between two parties to determine the rate of interest to be applied to a notional loan. The agreement will specify the future date (the settlement date) when this notional loan is

future at a guaranteed rate of interest: hence it provides certainty and allows a housing association to plan its cashflow. When a FRA is taken out, it will come into force even if a housing association does not take out the originally anticipated loan. A housing association needs to have worked out its cashflow/loan for the future correctly.

FRAs are generally used to manage short-term interest rate exposure for periods up to two years. The parties will make periodic payments, one to the other, calculated by reference to the changes in variable rates in comparison with the agreed fixed rate, usually at the beginning of the period and then discounted.

Interest rate futures contract

A futures contract is an agreement to enter into a notional loan based on a fixed rate of interest starting on the delivery date of the interest rate futures contract. The interest rate futures contract is similar to a FRA, except that it is exchange traded rather than a standard over the counter instrument. On expiry of the contract, cash settlement is the difference between the initial futures price/rate and the underlying interest rate on the settlement date. (source: *Tenants Services Authority – Financial Derivative Instruments – Regulatory Policy -99/05*)

Interest rate options

An interest rate option would enable a housing association to hedge its position against the increase or the decrease of interest rates and offers flexibility but at a price. The discharge of payments is not connected with one period, but with several repetitive periods. An interest rate option is a one-sided deal; payments from the housing association's side are limited to the premium payment.

An interest rate option does not commit the housing association in the way a swap or FRA does, however it gives the housing association a right but not an obligation to hedge at an agreed rate (the strike rate). If the strike rate is advantageous to the housing association in comparison to the prevailing market rate on a preset date(s), the option will be exercised and a compensating payment made by the seller to the housing association. If market rates are not advantageous to the housing association, the option will be allowed to expire and the market rate will be paid. The most common maturity ranges for an option are 1 year to 5 years. There are variations of interest rate options which allow:

- A cap to be set as an upper limit on interest costs over a period of time,
- A floor is an agreement where the seller agrees to compensate the buyer if the interest rate falls below the agreed floor rate,
- A collar is constructed by buying a cap and simultaneously selling a floor at lower strike price to the cap. The net impact is to constrain the floating rate of interest between the upper (cap) and lower limits (floor). The benefit of a collar is that whilst it limits the exposure it is not as expensive as buying a cap.

Cancellable option

A cancellable option is where the issuer has the right at periodic intervals to terminate the fixed rate within the loan and substitute a variable one. This right, once exercised, is irreversible. These represent embedded derivatives where the economic characteristics and risks of the embedded derivative are closely related to the economic characteristics and risks of the host contract. As such, they are not separated from the host contract and are treated as one. They are accounted for at amortised cost using the effective interest method.

Housing associations intending to enter into swap and derivative instruments will most likely utilise the ISDA (International Swaps and Derivatives Association) Agreement. The ISDA, which represents participants in the privately negotiated derivatives industry, is the largest global financial trade association. The ISDA Master Agreement provides the legal basis for transactions between financial institutions in many of the world's commodity and financial markets. The ISDA Master Agreement is a bilateral framework agreement. This means it contains general terms but does not, by itself, include details of any specific derivatives transactions the parties may enter into. The ISDA Master Agreement is a pre-printed form which will not be amended itself (save for writing in the names of the parties on the front and signature pages). However, it also has a manually produced schedule in which the parties are required to select certain options and may modify sections of the Master Agreement if desired.

The regulator will impose limits on the power of housing associations to enter into derivative transactions by imposing an aggregate maximum notional principal amount, similar to the borrowing limit found in a housing association's rules. Prior to entering into a hedging instrument - whether embedded or stand-alone - the Board needs to ensure that it is in the best interest of the housing association and have taken proper advice.

Best value and performance management

The housing association should be committed to the pursuit of best value in its treasury management activities, and to the use of performance methodology in support of that aim. The Board needs to ensure that the treasury function is subject to on-going analysis of the value it adds in support of the organisation's objectives. It should be subjected to regular examination to ensure the organisation's treasury activity.

CIPFA's Treasury Management in Public Services – code of practice gives the treasury management practices which should be developed. This includes reporting requirements and management information requirements which are key to monitoring performance: <http://secure.cipfa.org.uk/cgi-bin/CIPFA.storefront/EN/product/PUBCF024>

An association's treasury management service should be included within an association's overall best value plans and - with regard to probity - should be subject to review on a regular basis. As a minimum, associations should regularly report on:

- Details of investments made
- Details of new loans drawn down
- Details of refinancing exercises undertaken
- An independent review of the Association's loan portfolio, at least every five years (may be appropriate when a housing association has a substantial loan portfolio)

To ensure value for money, associations should include details of comparative investments available at the time the investment was made and a comparison of cashflow information and historical information collated to measure if the association could develop increased accuracy in its cashflow forecasting

Some methods to consider for performance management arrangements in housing associations on treasury management include:

- Interest Receivable (whenever there are funds to invest)
- Amount received compared to target (base rate + X)

- Interest paid fixed (monthly)
- Interest paid on fixed compared to five-year target rate
- Interest Paid on Variable (monthly)
- Interest paid on variable compared to target one-year rate
- Continue 3 Month projection (monthly) treasury management to result in favourable outcome by balancing overdraft facility/drawdown
- Percentage of fixed to variable (with a maximum level of exposure ref variable say 30% to 40%)
- Exposure profile expressed as a graph: showing level of fixed, variable, proposed draw downs, repayments

Conclusion

This guide provides a brief overview of treasury management for Board Members or those Members who have particular responsibility for overseeing and establishing an appropriate risk framework for the treasury activity.

As the housing association sector responds to the ongoing effects of the recession, its need to best manage its treasury function will naturally remain high on the agenda of associations. The housing association sector continues to grow and diversify and our appetite for funding will inevitably increase. As funding arrangements become more sophisticated to meet the specific needs of a housing association structure and project requirements, the Board needs to ensure that appropriate and effective treasury management strategies, policies and procedures are in place.

The potential impact of not complying with funding conditions or an inappropriate interest rate management strategy can be catastrophic and therefore treasury management remains an important part of an association's ability to demonstrate good financial standing and its ability to meet its future obligations.

The Board needs to establish clear controls and appropriate delegated authority to ensure an effective treasury management operation. The Board needs to ensure that it understands the risks and obligations of entering into a treasury transaction and that it is consistent with the approved policy. Due to the nature of treasury transactions, the Board and senior staff may feel it appropriate to seek independent external advice to validate the specific proposals requiring approval.

As funding and project structures become more sophisticated, some housing associations may consider using stand-alone derivatives transactions. These types of instruments are only available to those housing associations who have successfully achieved the wider rule change and approval from the Regulator. The Board needs to be satisfied that policies, procedures and controls are sufficiently robust to ensure that the use of derivative instruments can be properly managed without increasing the risk to the housing association.

Performance management should equally apply to the treasury activity. The Board needs to ensure that the treasury function is subjected to on-going analysis and review and ensure that the housing association's loan portfolio continues to offer value for money.

Treasury management is a vital and growing part of a housing association's finances and it is critical that the Board adopts appropriate policies and practices to ensure effective management and control.

CIPFA's Housing Associations' Panel

The Housing Associations Panel reports to the Institute's Public Finance and Management Board. Its areas of interest and activity are:

- consideration of finance and policy issues relating to registered social landlords
- the production and dissemination of relevant advice and material on best practice for members and employers on social housing issues
- responding to government, professional bodies' and other bodies' consultation and discussion papers.

The Panel meets at least three times a year. Its meetings consider technical issues in the field of social housing finance, responses to government and others' consultation papers, and Panel projects.

Panel members to update

The Panel membership includes practitioners and consultancy firms working in and for housing associations, along with representatives from the National Housing Federation and national regulators. Its current membership consists of:

Charles Brotherton	Mid-Wales Housing Association
Joseph Carr	National Housing Federation
Arthur Cockburn	Prospect Community Housing Association
Tony Deakin	Cartrefi Conwy
Louise Dunne	CIPFA Housing Advisory Network
Jane Harrison	Women's Pioneer Housing
Lakhbir Jaspal	Accord Housing Group
Elizabeth Mackin	Scottish Housing Regulator
Patrick McCarthy	Wirral Partnership Homes
Arthur Merchant	Grant Thornton UK
Pascale Mézac	Plan2moro – Business Planning Services
Kath Palmer/Naheed Hussain	Welsh Assembly Government
Julie Robinson	Watford Community Housing Trust
David Taylor	Consultant / Teachers Housing Association
Anne Turner	Orbit Housing Group
Philip Winter	Tenants Services Authority

Further Details

Details about the Housing Associations Panel and its activities can be found on the Panel website http://www.CIPFA.org.uk/panels/housing_association/index.cfm

Comments

If you have any comments or suggestions regarding this guide please contact Julian Smith, Policy Support Officer, CIPFA, 3 Robert Street, London WC2N 6RL (T 020 7543 5795 or julian.smith@CIPFA.org.uk)

APPENDICES

Treasury Management Practices – delivering the policy

1 Treasury risk and management

- a Please refer to Treasury management risks section

2 Performance measurement

- a A statement about the performance methodology which will be used to ensure best value
- b How will potential improvements in alternative methods of financing be considered?

3 Decision-making and analysis

- a Roles and responsibilities of members and officers
- b Level of delegation for treasury matters
- c How loan decisions will be made and recorded

4 Approved instruments, methods and techniques

- a What different types of borrowing will be considered eg bonds, term loans, repayments etc
- b Limits on amounts borrowed from individual funders
- c Any limits on amounts borrowed from individual funders
- d Any limits or parameters relating to repayment limits eg at least 50% of loans for over 25 years
- e Approved investment instruments
- f Use of derivatives
 - Which types will be considered
 - Maximum exposure limits
 - Whether these should be embedded or stand-alone

5 Organisation, clarity and segregation of responsibilities, and dealing arrangements

- a How officers will delegate and distribute treasury work
- b Statement re. segregation of duties
- c How procedures will be documented and updated

6 Reporting requirements and management information systems

- a Annual treasury strategy report setting out annual objectives
- b What information is required by members quarterly to measure performance against targets and in what format eg graphical or written
- c Benchmarking and trend analysis of key indicators
- d Sensitivity to interest changes etc

7 Budgeting, accounting and auditing arrangements

- a Identification of key budget holders and monitoring arrangements
- b Scale and frequency of audits

8 Cash and cash flow management

- a A high level overview of banking arrangements including overdraft facilities
- b Any minimum cash balances will be invested eg AA rated only
- d Maximum exposure limits with individual banks

9 Money laundering

- a A clear statement on systems in place to detect irregularities

10 Training and qualifications

- a Identification of the key staff (and members) involved in treasury activities and their relevant qualifications
- b How will these staff and members be trained and kept updated?

11 Use of external service providers

- a How and when external/independent service providers or advisers will be used
- b Any parameters re legal advisers, valuers or security trustees

12 Corporate governance

- a Statement re openness and transparency, honesty, integrity and accountability
- b Confirmation of any external codes which have been adopted.

Board Members – quick checklist

Q1	<p>Do I understand the risks in the long and short term of the following?</p> <ul style="list-style-type: none">▪ borrowing in advance/or too late▪ breaching covenants▪ protecting investments▪ breaking the rules set by regulators
Q2	<p>Do I understand the terminology?</p> <ul style="list-style-type: none">▪ of what is being proposed?▪ are the terms used explained? <p>Examples used might include: swaps, derivatives, fixed/floating charges, realized/unrealized gains, penalties or redemption – breakage costs, hedging</p>
Q3	<p>Can I understand financial statements?</p> <ul style="list-style-type: none">▪ net current assets/liabilities▪ interest cover▪ interest capitalised▪ capital commitments▪ gearing▪ undrawn borrowing facilities

Q4	<p>Do I understand the treasury management strategy?</p> <ul style="list-style-type: none"> ▪ the number of lenders ▪ when do we need to borrow – how does this link with cash flow? ▪ does the strategy link with the business planning? ▪ what are we doing to manage security ▪ do we comply with the Housing Corporation requirements?
Q5	<p>What do I need to know before I approve loan documentation?</p> <ul style="list-style-type: none"> ▪ are we within the borrowing limits? ▪ is the financial instrument allowed under our rules? ▪ is the financial instrument allowed under our treasury management policy? ▪ have we consulted external advisers eg lawyers? ▪ have we consulted our auditors? ▪ do we understand the covenants? ▪ are we anticipating fixed//floating charges? ▪ can we afford the interest and capital repayments?

Checklist of questions for the Board

The questions set out below aim to identify the key risks the Board need to ensure are adequately addressed as part of their overall approach to treasury management. Housing associations should ensure they are aware of regulatory requirements. For ease of reference, the questions are set out in areas.

Cash management/liquidity

Q1	When will the housing association need new facilities and how much
Q2	How does the housing association ensure that non utilisation fees are avoided wherever possible?
Q3	Does the housing association produce regular cash flow variance reports and how are these used?
Q4	What is the size of the housing association's overdraft facility; how can it be accessed and is it cost effective?
Q5	What is the extent of the housing association's undrawn loan facilities and when will they be utilised?

Relationship with funders/bankers

Q1	How are the housing association's funders engaged with the housing association's work and business plans?
Q2	Have funders raised any issues and how are these monitored by the Board?
Q3	How regularly does the housing association meet its funders?
Q4	How does the housing association assess funders' performance and what added value do they bring?
Q5	Does the housing association have too many or too few funders?
Q6	Does the housing association regularly monitor and report against covenants included in loan documents?
Q7	Is this information used to review requirements with funders?

Covenants and compliance

Q1	Is the housing association required to verify covenant compliance at the end of the financial year?
Q2	How does the housing association monitor its covenants position on an ongoing basis?
Q3	If there is a range of different variations of similar covenants, is that necessary, can they not be rationalised?
Q4	How does the Board gain assurance that there are no covenant breaches during the year and what early warning indicators exist?
Q5	If covenants are tight, what action is being taken to re-negotiate?
Q6	Does the housing association comply with all requirements of its loan agreement(s)?
Q7	What would happen if the housing association breached its loan covenants?

Delegation

Q1	Does the Board know what delegated authority has been given to officers?
Q2	Is the delegated authority for treasury transactions appropriate to ensure segregation of duties?
Q3	What arrangements exist when key treasury staff are unavailable?
Q4	How frequently do delegated authority levels get reviewed?
Q5	Are the delegated authority levels adequately set out in the housing association's Standing Financial Regulations?
Q6	Do the delegated authority levels adequately split the responsibility between different levels of staff and board members?

Staff and board experience

Q1	Do the staff who manage the treasury function have appropriate skills and knowledge?
Q2	Does the housing association engage independent advisors to assist with treasury decisions?
Q3	Does the Board have the appropriate skills to ensure they understand their roles in respect of treasury management and understand the policies/strategy and their implementation and impact?
Q4	Is there appropriate division of duties and responsibilities (for the size of organisation) between staff working on treasury management?
Q5	Does the housing association retain independent advisors to keep abreast of market conditions and funding opportunities?
Q6	Are there adequate arrangements in place to ensure loan obligations can continue to be met, in the even of key personnel being unavailable?
Q7	If the housing association does not consider it has appropriate numbers of staff working on treasury management (for example in a small organisation), has it considered additional controls and whether risks are regularly monitored?

Audit and control assistance

Q1	Are there formal treasury management policy and procedures?
Q2	Are the controls established by the Board effective?
Q3	Does the annual audit plan adequately address the key issues associated with the treasury activity at the strategic and operational levels?
Q4	How often is the treasury function subjected to an internal audit review?
Q5	Have the recommendations (if any) from the previous internal audit report on treasury management been actioned?
Q6	Have the external auditors reviewed treasury management as part of their year end work? If so, were there any issues?
Q7	Has the internal auditor independently reviewed the housing association's compliance against loan covenants?

Risk management

Q1	Is there an appropriate risk culture embedded within the housing association and are the controls relating to treasury management effective?
Q2	Do we continue to enjoy a good relationship with our funders and are we able to increase loan facilities if required?
Q3	Does the housing association review its treasury management policy annually and does the Board receive regular reports?
Q4	Are we using derivatives as a proper hedging tool and what is our exposure to such instruments?

Portfolio management

Q1	How often is the housing association's loan portfolio reviewed?
Q2	How does our loan portfolio compare to other housing associations with similar characteristics?
Q3	How have we determined our interest rate management strategy and the proportion of fixed and variable debt?
Q4	How often does the housing association review its interest rate management strategy and how is it tested in conjunction with its business plan?
Q5	What are the risks associated with our current debt portfolio?
Q6	What alternative debt portfolios should be considered?
Q7	If the housing association is considering re-financing what cost benefit analysis has been undertaken?
Q8	How does the housing association's debt portfolio link to its investment strategy?
Q9	Do we have a wider rule change in place? If yes, what are its implications?

Hedging instruments – derivative rule change review

Requirement	Actual	Comments
Board has approved the rule change/goes to board for approval		
Charity commission approval?		
Rule wording follows "model rule" in r2-05/99?		
A treasury policy exists. Approved and or reviewed by board or sub-committee. <i>Adopted as part of housing associations' standing orders and financial regulations.</i>		
A treasury procedure guide exists. <i>May be stand alone or part of general finance procedure guide.</i>		
Treasury policy defines the scope and nature of treasury operation within the housing association. <i>This may be in the form of a short definition along the lines of that shown in the CIPFA guide to treasury management in housing associations</i>		
Treasury policy defines the objectives which the treasury function is charged with achieving. <i>These objectives should be heavily weighted towards minimisation of risk and security of the financial assets of the housing association.</i>		
Treasury policy defines the types of instruments which can be used to raise		

<p>money eg syndicated bank loans or bond issues.</p> <p><i>A prescriptive list including any restrictions or limits on the use of a particular class of instrument is preferable.</i></p>		
<p>Treasury policy defines the types of instruments which can be used for the investment of surplus cash eg bank deposits, gilt edged stock etc.</p> <p><i>A prescriptive list including any restrictions or limits on the use of a particular class of instrument is preferable.</i></p>		
<p>Treasury policy should set out liquidity policy eg defines minimum levels of liquidity and basis of calculation.</p>		
<p>Treasury policy defines the types of instruments which can be used for hedging purposes if the housing association is authorised to use derivatives.</p> <p><i>A prescriptive list including any restrictions or limits on the use of a particular class of instrument is preferable.</i></p>		
<p>The only permitted derivative transactions allowed with a rule change are interest rate options, collar, cap, swap and FRAs, and options on any of these types of transaction. The writing of derivative transactions is not allowed with the exception of the floor element of a collar sold simultaneously with buying the cap element.</p>		
<p>Treasury policy defines the credit policy in respect of counterparties ie a rationale for selecting organisations from which money may be borrowed or to which surplus cash may be lent.</p> <p><i>Ideally the rationale will be pragmatic and based on a demonstrable measure of creditworthiness eg published credit ratings. A list of named organisations with individual exposure limits may be included and is preferable, though not essential if the rationale is explicit.</i></p>		
<p>Treasury policy defines the upper limits of exposure to financial risk eg interest rate movements, which the housing association will tolerate eg “no more than 50% of long term debt to be at floating rates of interest”.</p> <p><i>As above, exposure limits should be conservative and seek to minimise risk but should not be so restrictive as to impede the efficient operation of the housing association.</i></p>		
<p>Does the treasury policy cover providing security (type and limit) for derivative transactions?</p>		
<p>Treasury policy defines the delegation of authority to officers and the establishment of appropriate parameters ie which decisions must be referred to the board and which can be taken by the finance director etc.</p> <p><i>Ideally delegation lists should be appended to the policy statement and re-affirmed annually but may be dealt with separately on an ad-hoc basis.</i></p>		
<p>There is adequate separation of duties and that staff involved at all levels have sufficient competence and understanding to effectively control the</p>		

<p>function.</p> <p><i>The delegated authority listings appended to the treasury policy statement should determine the separation of duties between officers. As a minimum requirement it should be established that no individual, however senior, is authorised to deal on behalf of the housing association <u>and</u> to instruct the housing association's bank to instigate money transfers. No individual should appear on the dealing mandate <u>and</u> the list of authorised signatories to the bank account for the purpose of instigating wholesale transactions.</i></p>		
<p>Treasury policy defines the frequency and nature of reports on treasury activity to the board and senior executive. <i>Decision makers and those ultimately accountable for the financial operations of the housing association must be sufficiently well informed to make prudent and reasonable decisions.</i></p>		
<p>Is treasury strategy reviewed regularly (eg annually) and recommendations submitted to the board or appropriate sub-committee?</p> <p><i>Annual treasury strategy may be included as part of a general financial strategy review and report.</i></p>		
<p>Ensure adequate security in the issuance of instructions to the housing association's bank for the movement of monies out of or between bank accounts.</p>		
<p>The board and executive of the housing association are sufficiently well informed that they can make reasonable and prudent decisions. <i>These may include raw data from, for example, the FT, Reuters, Telerate etc. And/or the services of an external independent advisor. The more sophisticated the treasury operation, the more important market information and advice becomes.</i></p>		
<p>The documentation and recording of all treasury transactions is adequate. <i>Ideally serially numbered pre-printed deal tickets, daily cash position statements, notes of competitive quotes, full loan documentation with any attached legal opinions etc.</i></p>		
<p>Records of derivative transactions include details of:</p> <ul style="list-style-type: none"> i) Consideration and authorisation ii) Relevant advice received iii) Evidence of compliance iv) Objective of the transaction ie risk being managed v) Security requirements of the counterparty. 		
<p>The audit trail allows internal and external auditors to examine the background and rationale for, and execution of, any treasury transaction.</p> <p><i>Deal tickets, bank instruction letters, counterparty confirmations, cashflow forecast, mandates, delegation of responsibility lists etc.</i></p>		
<p>There is an audit plan in respect of treasury activity. <i>An annual operational audit is essential and regular but less frequent systems audit is highly</i></p>		

<i>desirable.</i>		
The levels of interest rate sensitive assets and liabilities and the exposures thus created do not result in unacceptable levels of risk. <i>Future exposure levels should never exceed those determined in the policy statement but it may be that sensitivities to movements in interest rates have not been dealt with as a matter of policy.</i>		
All transactions are in sterling. (In exceptional circumstances where borrowings are in a foreign currency, a currency swap is obligatory.)		

General comments and questions

What is the rationale for deciding to exercise wider Treasury Management powers rather than using embedded hedging products? What, if any, transactions are planned to enter into in the short-term?

Are all relevant treasury management documents consistent with previous regulatory requirements as set out in circulars R2-04 & 05/99 together with any other external good practice guidance eg from CIPFA?

As part of the treasury management review, carry out a limited amount of validation of existing treasury management transactions such as investment of surplus funds, loan rollover.

Common definitions

(Source: *The Tenants Services Authority: Treasury Management for Housing Associations*)

This glossary includes a number of terms which are referred to within the good practice guide, but also includes other terms which may be of use to those involved in treasury management.

At the money: An expression originating in the options markets to describe an option exercisable at the current market price of the underlying security or interest rate (eg an option to buy or sell a company's shares exercisable at their current value). Its use has spread through derivative markets where it generally references the current price/interest rate of the instrument underlying a derivative.

Asset cover: The ratio of debt to the value of the asset(s) pledged as security for that debt typically specified in loan documentation.

BACS: Bankers Automated Clearing Services (BACS) is the UK's low-value clearing system.

Basis point: 100 points = 1%

Basis price: The price agreed in an option contract is the 'basis' or 'strike' price. The buyer of the option pays a premium in return for receiving the option to buy (see Call) or sell (see Put) the underlying instrument at the basis or strike price on dates or for a period in the future. The premium is the amount of the buyer's risk.

Board: This means the governing body of an organisation, with all Board members and includes its committees.

Bond: A certificate evidencing indebtedness - a legal contract sold by an issuer promising to pay the holder its

face value plus amounts of interest at future dates.

Bond market: Response to greater difficulty in obtaining long terms loans.

Call option: The right to buy or otherwise acquire a security at a certain time. For example, some bonds are issued with embedded options entitling the issuer to call the obligation prior to its stated maturity: in effect to redeem early at a stated price and date.

Capped rate funding: Funding whereby the underlying interest rate increases in line with underlying interest rate movements, any movement capped at a predetermined interest rate level.

Cash pooling: Cash management technique aimed at improving liquidity management by pooling an organisation's account balances either under the form of a cash concentration or a notional pooling arrangement.

CHAPS: The Clearing House Automated Payment System (CHAPS) is the UK interbank RTGS (real time gross settlement) system providing same day settlement for (typically) low-volume, high-value transactions. As a result of its migration to a new platform, it is also called New CHAPS.

Clearing house: An association of banks in a city or country created to facilitate the clearing of cheques, drafts, notes, and other items among its members. It also formulates policies and rules for the mutual welfare of all members, and in times of financial stress, may aid those members who might require help in the process of clearing cheques, etc. The settlement of debtor or creditor balances usually must be made daily.

Collateral: Stock, bonds, evidences of deposit, and other marketable properties which a borrower pledges as security for a loan.

Convertible: A bond which gives to its owner the privilege of exchanging it for other securities of the issuing corporation on a preferred basis at some future date or under certain conditions.

Cost of capital: For the HA this is effectively its borrowing cost and, where appropriate, the return sought on the investment of surplus. A private company would include both debt and equity costs.

Counterparty risk: Counterparty risk is the risk that a counterparty may fail, resulting in financial loss to the transacting party.

Coupon: For historical reasons the name given to interest payments on a bond or similar security.

Covenant: Agreement by a borrower incorporated in the documents of a new issue and legally binding upon the issuer over the life of the issue, unless otherwise stated, to perform certain acts or to refrain from certain acts.

Credit risk: The degree of risk assumed for possible non-payment of credit extended.

Dealing limit: The maximum amount of all unmatured trading contracts that can be outstanding for a given counterparty.

Debenture: A bond for which there is no specific security set aside or allocated for its repayment.

Demand deposit: Deposits that are payable on demand at any time the depositor elects. They are drawn against by cheques, and require no notice of withdrawal.

Deposit limit: The maximum amount and the maximum term of all deposits that can be outstanding with a given counterparty.

Derivative: A financial instrument that derives its cash flows, and therefore its value, by reference to an underlying instrument, index or reference rate.

Drawdown: Payment to the borrower of all or part of a bank's loan commitment.

Drawee: The person to whom a bill is addressed (usually the buyer).

Drawer: The person who fills out (draws) the bill (usually the seller).

Duration: A measure of the sensitivity of a security's market value that is defined by the average time until receipt of the cash flows weighted by the present value of those cash flows.

Effective yield: The actual return earned by an investor consisting of all cash received from the investment, including coupon return, interest earned on re-invested interest or principal payments and any capital gain or loss from disposing of the investment in comparison to the initial acquisition price.

Electronic funds transfer (EFT): The exchange of money via telecommunications, without physical currency actually changing hands. EFT refers to any financial transaction that transfers a sum of money from one account to another electronically.

Embedded derivative: An embedded derivative is a derivative that is embedded in another contract — the host contract.

Fixed rate loan: A loan in which the interest rate does not change during the entire term of the loan.

Floating rate: Indebtedness for which the interest payable is periodically adjusted.

Floating rate notes: Bonds without a fixed rate of interest, the coupon rate periodically determined according to a predetermined formula typically tied to a short-term interest rate in an appropriate market.

Forward position: An enterprise's future net holding as constituted by all transactions already entered into, excluding the spot position.

FRS26 - fair value accounting leading to greater volatility through I&E and in medium term

Futures contract: A forward contract to buy, sell or pay a specific amount that is standardised and exchange traded.

Gearing: For the HA this is typically expressed as the ratio of its debt to the net cost of its property assets. For LSVTs the revaluation reserve is included.

Hedging: Engaging in transactions to reduce or eliminate exposure to changes in market conditions (eg interest rate changes) under forward commitments.

In the money: An option or derivative contract whose present value for one of the parties is positive compared to current market prices at any relevant time is in the money for that party.

Increased cost clause: A clause in Bank and Building Society loan agreements which allows the lender to require compensation for increased regulatory costs or any reduction in its return on capital arising from funding or maintaining the loan commitment. Such costs might arise if, for example, the bank is required to hold more capital in future against its regulated assets and would lead to an increase in the loan margin. See also Market Disruption Clause and Tax Indemnity Clause.

Interest cover: For HA its regulator employs the ratio of interest paid to Earnings before interest paid, taxation, depreciation and amortisation (EBITDA).

Interest margin/spread: A measure of investment profitability often calculated as the difference between income on deposits or investments and the applicable cost of funds (eg LIBOR plus lenders margin etc) expressed as a percent of the capital invested.

Interest rate contract: An off-balance sheet transaction which involves a future commitment to pay or right to receive certain cash flows calculated on the basis of interest rates on an underlying notional principal amount. Examples include, interest rate swaps, forward rate agreements and interest rate options (including caps, floors, collars and swaptions or other derivatives).

Interest rate risk: The risk of increased interest expense (or reduced interest income) as a result of change in market interest rates.

Lender's Option- Borrower's Option (LOBO): A floating [or fixed] rate instrument which permits the lender to nominate a revised rate at periodic reset dates, and lets the borrower decide whether to pay the rate or redeem the bond

LIBOR: London Inter Bank Offer Rate. The interest rate which banks in London charge on interbank deposits for set periods of time (eg 3-month LIBOR).

Line or line of credit: An arrangement whereby a bank will lend or trade for funds up to an internally approved maximum amount.

Liquidity: Available cash or the capacity to obtain it on demand.

Loan: A business transaction between two legal entities whereby one party, known as the lender, agrees to give the use of funds to the second party, known as the borrower, with or without a fee. Such a fee, if charged, is called interest or discount. Banks are the principal lenders of funds for commercial purposes.

Margin: For secured loans the difference between the market value of collateral pledged to secure a loan and the face value of the loan itself. Margin requirements, set by each bank, specify the ratio of collateral to loan value that must be maintained by the borrower to keep adequate security pledged to the bank for the life of the loan. See also Interest margin/spread.

Market disruption clause: A clause in Bank and Building Society loan agreements which allows the bank to charge an alternative rate to LIBOR if LIBOR is not quoted in the market at any time and in some versions even if LIBOR is quoted but the lender asserts it cannot obtain funding on a LIBOR basis.

Mark-to-market: The adjustment of a position to reflect accrued profits and losses. (The adjustment of a position to its market value).

Matching: Entering into an equal and opposite transaction which may differ from the original transaction only as to price (for example, the interest rate). The effect of matching, which is also referred to as covering, is to determine the profit or loss attributable to the two deals.

Maturity: The date on which a note, time draft, bill of exchange, or other negotiable instrument becomes due and payable.

Notional: The value of the principal amount advanced.

Option: A contract giving the holder the right (but not the obligation) to either buy from or sell to the issuer of the contract a fixed quantity (of, for example, securities) at a fixed price within or at the end of a specified time period.

Option premium: The total price paid by the buyer or received by the seller for the option.

Out of the money: An option or derivative contract whose present value for one of the parties is negative compared to current market prices at any relevant time, is out of the money for that party. Each out of the money position corresponds to an in the money position for the counterparty.

Overdraft: The debit balance in a demand deposit or current/checking account resulting when a cheque drawn against the account exceeds the amount available and is paid.

Principal: The face value or par value of an instrument which becomes the obligation of the maker or drawee to pay to a holder in due course. Interest may be charged on this principal. In some instances, however, the obligation is for the principal only. This is termed 'non-interest bearing' principal.

Retail Price Index (RPI): A monthly indication of the average price changes to a particular 'basket' of consumer goods. Used as a general indicator of price inflation.

Revolving letter of credit: A credit that enables a number of letters of credit to be issued under one facility.

Revolving loan: A loan that can be redrawn or repaid at each interest rate rollover (see below) and if repaid can be redrawn subsequently by the borrower.

Rollover: The period, usually 3 or 6 months, for which the interest rate on an adjustable-rate loan is set. At rollover date the funds are notionally repaid and relent (or rolled over) and the new interest rate established.

Securities: A variety of financial instruments evidencing and promising the fulfilment of certain obligations.

Settlement: The actual delivery and receipt of the media of exchange under a contract.

Spot position: The position at the present time encompassing present assets, liabilities, and commitments due within two working days.

Subordinated Debt: Obligations not in the first (senior) tier of obligations. In the event of default, subordinated debt holders are paid after all senior obligations have been discharged.

Swap: An exchange of streams of payments over time according to specified terms. The most common type is an interest rate swap, in which one party agrees to pay a fixed interest rate in return for receiving an adjustable rate from another party.

Swaption: An option giving the holder the right, but not the obligation, to enter into or cancel a swap agreement at a future date.

SWIFT: An acronym for the Society for World-wide Interbank Financial Telecommunications, a system which provides electronic payment of funds between banks in different countries (principally in Europe, Canada, the U.S. and Australia).

Syndicate: A group of bankers and/or bond houses which act together in underwriting and distributing a new securities issue.

Syndicated loan: A loan granted to a borrower by an organised group (syndicate) of banks.

Tax indemnity clause: A clause in Bank and Building Society loan agreements which requires a borrower to 'gross up' its payments in the event a withholding tax is introduced on interest payments. In effect, the borrower must increase its payments by an amount sufficient to ensure that the lender receives the same net amount it would have received without the imposition of the tax. The borrower must then pay the withheld tax to the tax authority and await the lender reclaiming and refunding the tax payment if possible.

Volatility: The degree of price fluctuation for a given asset, rate or index. Usually expressed as variance or standard deviation.

Working capital: Working capital measures the liquidity of a company's assets and equates to current assets less current liabilities.

Yield: The return received from one's investment in a specific security or a specific piece of property over and above the repayment of the funds invested. Yield is most commonly expressed in terms which designate an annual rate of return on the investment.

Zero balancing: Transference of all account balances into a nominated master account.

