



Dear colleague,

I am pleased to attach a copy of Circular 01/07 Treasury Management by Housing Associations. The Circular is the culmination of the consultation process which started last year.

In arriving at our revised policy as set out in the Circular we have taken into account a number of developments over recent years including:

- the Corporation's adoption of a risk-based approach to regulation, moving away from the previous more prescriptive approach;
- the increasing sophistication of some associations in the way they want to manage their treasury risks; and
- the availability of a wider range of derivative instruments to manage those risks.

This policy re-states our basic expectations:

- that housing associations must have the skills, knowledge and experience, at both board and officer levels, as well as the systems and access to independent advice, necessary to identifying and managing the treasury risks to which they are exposed; and
- that they must use derivative instruments solely for the purposes of managing treasury risk.

We have moved away from a three-tier classification of associations in terms of the use of derivative instruments, to a two-tier system. The first tier will be able to use derivatives incorporated within loan documentation to manage their treasury risks. The second tier will in addition be able to use free-standing instruments to manage the risks to which they are exposed. For those associations that obtain the 'new' wider rule, the Corporation will not be prescriptive about what instruments may be used.

By taking a less prescriptive approach we are placing the onus on associations to make their own decisions, for example, when deciding what information to submit to us in applying for the wider rule change. We want to move away from a box ticking approach to assessing these applications, but our regulation staff will be happy to discuss the information to be submitted in advance of an application being made.

Similarly, we leave it to groups to decide whether they should compare the nominal amount of derivatives with the underlying exposure at the group or individual association

level. As we regulate at the group level, our general expectation would be that the group level would be the default option, but we recognise that it will not always be appropriate. The sector is increasingly innovative in terms of the group structures it adopts, and so to be more prescriptive in this area would not be appropriate. Again our regulators will be happy to discuss a group's approach in this area.

In summary I am satisfied that our revised approach to treasury management by associations continues our progress to a full risk-based approach to regulation, giving associations the freedom, within the broad parameters of the regulatory framework, to run their businesses and manage their risks as they wish.

Yours sincerely

A handwritten signature in black ink that reads "Clare Miller". The signature is written in a cursive, flowing style.

Clare Miller
Director of Regulation