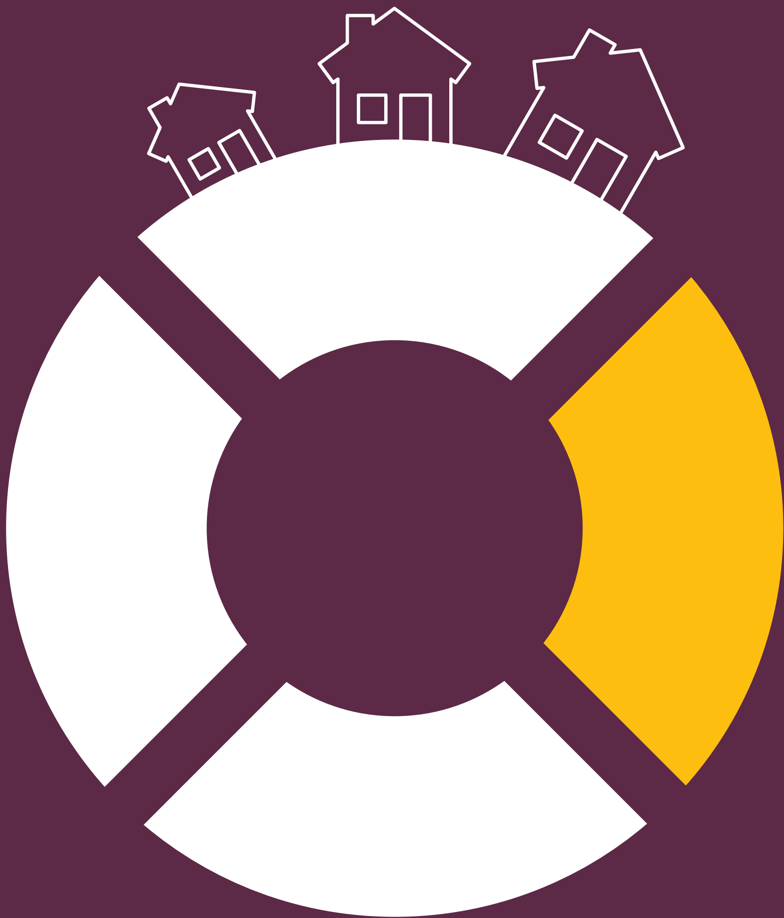
NATIONAL HOUSING FEDERATION

# Asset and liability registers and stress testing

## Safeguarding your business



CAMPBELL TICKELL

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> **Good crisis prevention does not depend on imagining the precise form of the unimaginable. You can't expect to pre-empt surprises. You just have to recognise that surprises will come, and force the system to build stronger defences that can help it withstand the extreme ones.[1]**

1. Stress Test: Reflections on Financial Crises. Timothy F. Geithner, former US Secretary of the Treasury. May 2014

# Introduction

Since the financial crisis in 2008, when credit between banks and then to businesses and consumers dried up, companies, governments and international bodies across the globe have been reassessing how to protect businesses from dramatic shocks to the economy and to their sector-specific operating environments. The banking sector has seen the most activity in this regard, driven by the resolve of governments to avoid another very expensive tax-payer funded bailout. Here and elsewhere the response of policy makers has been to mandate stress testing and resolution planning.

The English social housing sector has been no exception to this trend, as it too was affected by the ructions in the global financial markets that saw liquidity vanish and business plans built on housing sales crumble. In 2009-10 the then investment agency, the Tenant Services Authority (TSA), had sufficient grant in its coffers to come to the rescue of those developing associations that were left stranded. The current regulator, the HCA, knows it will have no such rainy day piggy bank come the next economic downturn.

Since the days of the financial crisis other interconnected issues have come to impact on the business model of housing associations. To cite but two: fiscal austerity has seen grant rates dwindle and associations exploring new for-profit ventures to provide the cross-subsidy to fill the gap; and welfare reform is introducing both volatility and uncertainty into previously dependable income streams. These and other risks are putting pressure on associations' finances and have been explored by the HCA in its annual publication **Sector Risk Profile**.

Housing associations have shown resolve and creativity in the face of these challenges, maintaining a strong credit history and a no-loss-on-default record. However a very small minority of associations have experienced significant financial difficulties, the most well-known of which was Cosmopolitan Housing Group.

**In 2009-2010**

the then investment agency, the Tenant Services Authority (TSA), had sufficient grant in its coffers to come to the rescue of those developing associations that were left stranded.

External challenges will of course continue. All well run organisations use a variety of methods to ensure that their ambitions can be delivered in the face of adverse movements in the external environment and/or deteriorating operational performance. This guide seeks to support housing associations to continue that work.

In response to the changing risks faced by associations the HCA, through its new **Governance and Financial Viability Standard**, the accompanying **Code of Practice** and its **New Approach to Regulation**, has set out a range of new requirements for housing associations. The two most substantive ones – compiling a record of assets and liabilities and stress testing – are the subject of this guide.

The HCA is not alone. Several new governance codes and standards have highlighted the central responsibility of boards in all sectors and of all varieties of organisations to manage risk. **The Corporate Governance Code** underlines the reasonability of directors of all companies with listed shares for the long-term viability of the business and the **National Housing Federation Code of Governance**[7] emphasises the role of the boards of housing associations in ensuring the organisation's long-term success. For 'long-term' here read 'beyond one or more downturns in the economic cycle'. In this sense it is clear that both asset and liability registers and stress testing are tools that represent best practice in the stewardship of long lasting social assets.

This guide offers an introduction to what to consider when compiling thorough asset and liability registers and when planning how best to stress test your business. We also set out how these practices are applied in other sectors (See Box 1 on page 10 and Box 2 on page 16).

As Julian Ashby, the chair of the HCA's Regulation Committee has pointed out:

> **These new requirements are what any well-run provider should need to be doing to manage risk and maximise its social outputs. If you are only doing it to please the regulator, then you are starting from the wrong place.**

# Asset and liability registers

One of the responses to the global financial crisis has been a flurry of new proposals for resolution processes or living wills for a wide range of financial institutions and intermediaries. The Bank of England **defines resolution** as the process by which the authorities can intervene to manage the failure of a firm.

In 2013, in line with this trend, the HCA published a discussion paper, **Protecting Social Housing Assets in a More Diverse Sector**, which suggested that some social providers should be required to produce living wills showing how their affairs would be wound up in the event of financial crisis and their social housing assets protected. Whilst the paper was published in advance of the formal lessons learnt review of the Cosmopolitan failure, it was undoubtedly strongly influenced by this experience and other difficult cases of financial distress.

Whilst the living wills requirement did not survive the various rounds of consultation, the new requirement on asset and liability registers does reflect those difficulties encountered during the Cosmopolitan rescue process that were due to the absence of comprehensive, accurate and up-to-date information on assets and liabilities.

Asset and liability registers are one of the key building blocks of a living will or resolution process and it is through retaining this measure that the regulator is looking to strengthen its ability to maintain the sector's enviable credit record.

## Business Benefits

Comprehensive, accurate and up-to-date asset and liability registers are essential to any well-run, asset-based, capital-intensive businesses. They enable re-valuation exercises, accurate rent calculations, swift charging of security, active disposal programmes, credit ratings, lender/investor due diligence and careful monitoring of covenants. In addition, in the event of financial crisis they would enable the regulator and potential rescuers to quickly value the business and thus hasten an orderly resolution.

Several providers have encountered financial difficulties in recent years triggered by difficulties in charging security which would have been mitigated or avoided altogether if their asset register had been comprehensive, accurate and up-to-date.

## Regulatory Expectations

In order to comply with the Governance and Financial Viability Standard, all housing associations will be required to ensure their long-term viability by "maintaining a thorough, accurate and up to date record of assets and liabilities and particularly those liabilities that may have recourse to social housing assets."

Whilst the standards do apply to all housing associations regardless of size, organisations should respond in a way that is proportionate to their circumstances.

The Code of Practice further elaborates on this requirement by suggesting that:

- The primary purpose [..] is to ensure that registered providers understand their housing assets and security position and have swift access to this information in decision making and risk management.
- Such information needs to be readily available in the event of a potential or actual failure of the registered provider.
- The asset and liability register should contain sufficient information to enable a potential buyer to accurately price the value of the business and/or the value of the social housing assets in the event of distress.

The HCA requires parent boards of landlords with group structures to have "full understanding" of any intra-group liabilities, whether registered or unregistered. The regulator also expects boards to be aware of how a "failure in one part of the group may affect other members of the group" – especially where there is recourse to social housing assets. This applies to registered and un-registered providers.

Providers will not be required to submit their asset and liability registers to the regulator for scrutiny. Rather in certifying in their annual financial statements that they comply with all regulatory standards they will be confirming that they maintain such records.

In addition, the HCA may ask to verify the asset and liabilities register if it has concerns about an organisation's risk profile, even if these are within the compliant grades i.e. V2 or above. At this point the regulator will expect an organisation to be able to produce comprehensive, accurate and up-to-date registers at short notice.

A robust asset register will also support each provider in meeting the HCA's **Value for Money Standard** which requires each provider to:

> **"understand the return on its assets, and have a strategy for optimising the future returns on assets."**

## What does this mean in practice?

Most organisations will have a loans register and a property database. Some may also have a contracts register. The new regulatory requirements are intended to ensure that boards take ownership of these documents, that they become linked and that they are a key element of organisations' risk management processes. Given this objective and the requirement for boards to certify compliance with the standard, it is likely that more attention will need to be paid to the accessibility, completeness, timeliness and the accuracy of these documents.

In addition, further work may be required to document contingent liabilities (liabilities that could be incurred depending on uncertain future events) and contagion risks.

Every organisation will need to think carefully about how best to collate, present and validate the information that constitutes its asset and liability registers. This can be more challenging for larger groups with multiple operating subsidiaries, joint ventures and partnerships. We set out a range of possible items that could appear in the registers in Schedule A – this is not comprehensive but should provide a strong starting point for consideration.

In practice, it is likely that the registers will not be a single document, not least because many liabilities (and most contingent liabilities) are not linked to specific assets. Rather they are likely to be best accommodated in something like a live index with hyperlinks to the relevant source documents. Documented processes that guide access, version control and updating will also need to be integrated.

A useful check is to consider what information your organisation would need access to if it were asked to quickly rescue an ailing association, and to ensure that you have that same information to hand for your own organisation.

**Every organisation**

will need to think carefully about how best to collate, present and validate the information that constitutes its asset and liability registers.

## Role for the board

Because of the central responsibility of boards to manage risk, we set out below the roles of the Board and the Audit Committee in maintaining asset and liability registers[2].

| Board | Audit committee |
|---|---|
| Be able to articulate how social housing assets are protected within the organisation. | Validate the sufficiency, accuracy, timeliness and accessibility of asset and liability registers. |
| Develop a clear understanding of contingent liabilities and their link to stress testing. | Commission internal audit and specialist advice to provide assurance on these matters where appropriate, including from valuers and treasury advisors[3]. |
| Have a full understanding of liabilities, actual and contingent, that exist between all members of the group, as well as with external parties. | |
| Be aware of how a failure in one part of the group may affect other members. | |
| Request and receive relevant assurances from the Audit Committee. | |
| Certify compliance with this and other elements of all regulatory standards in the financial statements. | |

2. The role of housing association boards in managing risk is set out in greater detail in the Federation's publication *'Risk management: a guide for housing association board members.'*
3. The Federation's guide *'Understanding Assurance: a guide for housing association board members'* provides more guidance on how the board can gain assurance from the executive.

## Box 1: Resolution planning in the banking sector

In the wake of the 2008 banking crisis, the Financial Services Act 2012 created a new regulatory structure for UK banks. The intention of the new approach was to reduce the chances of banks failing and, if they did, to have a clear plan available to expedite their recovery. The newly created Prudential Regulation Authority (PRA) is part of the Bank of England and is responsible for regulating UK banks and building societies.

In January 2015, the PRA outlined its approach on the 'recovery and resolution' steps UK banks must be able to take if their business is struggling. This contains three elements: preparation, early intervention and resolution.

Underpinning this process is a requirement on banks to decide what the early-warning indicators are for their business that, if triggered, indicate the bank is in difficulty. To respond to these triggers, banks must have in place a 'recovery plan' that has been agreed with the PRA. This will include steps such as raising more capital and selling assets.

If this recovery plan fails and the bank is essentially insolvent, a second 'resolution plan' is handed to administrators. This plan includes details of everything needed to quickly wind up the business and will include items such as details of funding, **assets**, **liabilities**, the bank's key personnel and its capital structure. The resolution plan will also contain any 'critical economic functions' of the business that are deemed by the PRA to be critical to the functioning of the UK economy, such as a retail savings business.

Regulator-prompted resolution planning is further advanced in the US banking sector and several living wills have been rejected by the Federal Deposit Insurance Corporation including those of Bank of America, Barclays, Citigroup, Credit Suisse, Goldman Sachs, JPMorgan Chase, Morgan Stanley, UBS, as well as those of the local subsidiaries of BNP Paribas, HSBC and RBS.

# Stress testing

The origins of stress testing lie in the engineering sectors where there is a well-established practice of subjecting products to conditions beyond their normal operational environment, and to breaking point, in order to test their resilience. The Bank of England has recently neatly summarised what a stress test is not:

> **"The stress scenario is not a forecast. It is not a set of events that is expected or likely to materialise. Rather it is a coherent, 'tail-risk' scenario that is designed specifically to assess the resilience of UK banks."**

## Business benefits

Whilst the vast majority of associations manage their affairs in such a way as to ensure robust and sustainable viability, the history of providers getting into financial distress in our sector has persistently featured many examples of over-development, accelerated diversification and inadequate or inaccessible funding. All well-run organisations use a variety of methods to ensure that their ambitions can be delivered in the face of adverse movements in the external environment or deteriorating operational performance. These include business planning and identifying contingencies that can act as insurance in the event of risk crystallisation. Stress testing is simply an extension of this good practice.

Testing a business plan to destruction will help associations better understand what could bring about their demise, to take steps to avoid those circumstances and most importantly, to rehearse a range of difficult decisions which, if taken in good time and at speed, could see it survive beyond such a crisis.

## Regulatory expectations

In order to comply with the Governance and Financial Viability Standard, all housing associations are required to ensure their long-term viability by "carrying out detailed and robust stress testing against identified risks and combinations of risks across a range of scenarios, and putting appropriate mitigation strategies in place." Providers should of course respond in a way which is proportionate to their circumstances.

The Code of Practice elaborates on this requirement by suggesting that organisations should:

- Go beyond simple sensitivity testing and include multi-variate analysis which tests against potential serious economic and business risks;
- Explore those conditions which could lead to failure of the business; and
- Consider both the long-term, cyclical nature of economic factors that impact on the business as well as internal business risks.

The HCA expects organisations to stress test their whole organisation, i.e. all entities within the group, not just the registered providers. Providers will not be required to submit their stress testing to the regulator for scrutiny; rather in certifying in their annual financial statements that they comply with all regulatory standards they will be confirming that they have undertaken such an exercise. Stress tests will however form a key focus of the new in-depth assessments and providers can expect the visiting HCA team to want to discuss both the tests and the associated avoidance and recovery plans with executives and non-executives alike.

## What does this mean in practice?

In undertaking their own stress tests most providers will follow something akin to the following process:

1. Describe a range of events that in combination would cause financial distress, typically resulting in the breach of one or more loan covenants or running out of cash. These should link to both the strategic risk map and the contingent liabilities logged in the asset and liability registers;

2. Explore the cumulative and long-term impact of those events using a financial model;

3. Decide on one or more scenarios (where several events occur simultaneously) that would kill the business i.e. the perfect storm;

4. Use the model to articulate the scale of the crisis that would arise;

5. Rehearse a range of recovery actions that would be required to ensure long-term viability; and

6. Consider adjustments to risk appetite and other avoidance techniques.

Whilst fascinating and instructive, the financial modelling on its own will not ensure long-term financial viability, and so it is crucial that providers invest significant time and effort into the last two stages of this process. A useful rule of thumb is to plan to spend one third of the time on the financial modelling (stages 1 to 4 above) and two thirds on planning to avoid or recover from the perfect storm (stages 5 and 6).

## Defining the perfect storm

The Bank of England set out in precise terms the test that it required the eight systemically important financial institutions to run (see Box 2 below). In contrast the HCA has steered away from prescribing the scenarios that associations should explore – not least because each association faces a unique combination of challenges driven by geography, scale, ambition and exposure to market and contract risk. It is therefore for each provider to define its own perfect storm and we set out in Schedule B a range of possible events that could go into the mix.

It is worth reemphasising the point made in the Bank of England quote on page 11. The perfect storm is not a forecast. The likelihood or otherwise of such a combination of adverse events is not pertinent. Rather this is an exploration of the minimum it would take to break the business plan and how to enhance the resilience of the organisation to such events.

## Recovery planning

Once the financial modelling is completed the next stage is to identify those decisions that would need to be taken should the perfect storm blow in (stage 5 above). These will be practical and precise in nature, require difficult decisions and crucially must match the scale of the crisis that would ensue. Whilst they will be different for each organisation, they will typically include a sequence of measures including:

- Reducing discretionary spend;
- Delaying or stopping development;
- Restructuring teams and operations;
- Closing down loss-making activities;
- Divesting risky investments; and
- Selling assets or businesses.

In addition to developing a detailed action plan, organisations will want to verify that documented processes, early warning signs and key performance indicators align with these intentions. An organisation's ability to act at speed will be greatly enhanced by: an up-to-date asset and liability register detailing what value could be realised by asset sales; a good grasp on where third party consents would be required to take those actions; a real-time understanding of the scale of the committed and uncommitted development programme; and a comprehensive and granular list of items of discretionary spend.

## Making adjustments

With the modelling complete and the recovery plan in place providers will want to reconsider their top level risk management mechanisms and adjust them where appropriate (stage 6 above). Once more these will vary by organisation but could include:

- The risk appetite statement;
- Key Performance Indicators and early warning systems;
- Cushions or internal targets on financial covenants;
- Minimum cash and/or liquidity cushions;
- The maximum committed development pipeline;
- The degree to which major expenditure items are fixed in long-term contracts or procured under more flexible arrangements;
- Incentives embedded in executive performance targets and pay;
- The timing of budget reforecasting exercises in relation to the financial year end; and
- The skills of board members.

Clearly it is recovery planning and risk adjustments rather than the financial modelling which will ensure long-term viability and the protection of social housing assets. Hence providers should expect the HCA to concentrate on these elements of the stress test during their in-depth assessments.

### With the recovery plan in place

providers will want to reconsider their top level risk management mechanisms and adjust them where appropriate.

## Role for the board

Because of the central responsibility of boards to manage risk we set out below the roles of the Board and the Audit Committee in stress testing.

| Board | Audit committee |
|---|---|
| Lead on defining the elements that make up the perfect storm. | Provide assurance that critical elements of the recovery plan are truly realisable at speed. |
| Receive a clear narrative of stress testing using charts rather than tables. | Verify that early warnings and monitoring systems are appropriate and robust. |
| Understand what would kill the business through breaching loan covenants or exhausting cash. | Check processes, delegations and urgency powers. |
| Challenge the detail, scale and land speed of the recovery plan. | Commission internal audit, specialist advice and external validation to provide relevant assurances where appropriate. |
| Make adjustments to risk appetite and risk management mechanisms. | |
| Be prepared to discuss stress testing and recovery plans with the HCA. | |
| Request and receive relevant assurances from the Audit Committee. | |
| Certify compliance with this and other elements of all regulatory standards in the financial statements. | |

## Box 2: Stress testing in the banking sector

In 2009 the Basel Committee on Banking Principles set out general guidelines to help all banks conduct stress tests. It states:

- Stress testing should form an integral part of the overall governance and risk management culture of the bank.
- Stress testing should be actionable, with the results from stress testing analyses impacting decision making at the appropriate management level, including strategic business decisions of the board and senior management.
- Board and senior management involvement in the stress testing programme is essential for its effective operation.

In the UK the Bank of England oversees stress tests of the eight largest UK banks and building societies. This approach is different to the English housing sector, where the regulator does not prescribe scenarios.

In 2014 the Bank of England's stress test scenario was as follows:

- CPI at 6.5%
- 10-year gilt rate at 6%
- Real GDP down -3.5%
- Unemployment at 12%
- House prices down -35%
- Disruption in bank funding markets
- European tests include -7% fall in GDP

In December 2014 the Bank of England announced the results of its first stress tests, with RBS and Lloyds just scraping through and the Co-op Bank failing and being required to submit a revised capital plan.

In March 2015 the Bank set out the scenario for that year's stress tests, which include more of a focus on global risks such as that of a Chinese property crash and further falls in the oil price. Banks will be required to model the impact of failures of counterparties in Asia and Europe.

# Schedule A:
## Suggested elements of asset and liability registers

Each housing association will of course construct its own asset and liability registers according to the structure of its group, its partnerships and contracts and the nature of its funding arrangements.

Associations will wish to consider how best to construct their register(s) to work most effectively with the organisational data systems already in place. It is very likely that the registers will not be a single document, as many liabilities are not linked to specific assets. Rather there may be multiple sources, connected by a live and hyperlinked index. This will assist with automatic updates, keeping changing and static data in different systems and reducing the need for additional systems and overhead costs. Associations will need to ensure that registers are constructed in such a way that their administration is proportionate.

We set out below a menu of possible elements that could appear in the registers. This cannot be considered as a definitive or complete list. Providers must assess their own business requirements.

### Homes:

- Address details
- Local authority
- Property type, floor, age and size
- Scheme details
- Tenure (AST, assured, secure, shared ownership, licence etc)
- Information on title including any significant restrictions that may include:
  - planning permission restrictions
  - section 106 agreements
  - other restrictions on disposal, use or value
  - easements, wayleaves and ancient rights
  - rights of way
- Rent actual and potential: passing, target, affordable and market
- Age of components and expected future maintenance spend linked to a recent (say no more than five years old) stock condition survey
- Void history
- Management arrangements
- Shared ownership details including staircasing history and rent
- Whether charged as security, to which funder (including date of charge), or uncharged

- Suitability for charging (type, scale, construction, floor etc)
- Whether Right to Buy, Right to Acquire etc apply
- Externally validated valuations: existing use, market value tenanted, market value vacant possession. Property specific or cloned across the stock. No more than (say) five years old.
- Internal valuations: either survey-based; or desktop i.e. calculated by adjusting previous values using published data or known changes to key assumptions such as rental incomes, void rates, maintenance costs, etc., allowing for any title restrictions, availability of documentation, deeds, and covenants, and no more than, say, two years old.

## Other assets:

- Land
- Office(s)
- Commercial properties
- Work in progress
- Debtors
- Equity investments
- Outstanding insurance claims
- Anything else of significant realisable value

## Debt:

- Conformed copies of documentation for all borrowing instruments
- Any side letters and amendments to documentation
- Audited loans database to include
- Contact details for all lenders
- Loan amount, drawn, undrawn and secured, undrawn and not secured
- Repayment profile
- Interest charging basis
- Financial covenants
- Information requirements
- Other covenants
- Representations and warranties
- Events of default
- Cross-default clauses
- Matters requiring consent and where this cannot be unreasonably withheld

**Associations will need to ensure**

that registers are constructed in such a way that their administration is proportionate.

## Derivatives:

- Hedge counterparty
- Details of the hedge (nominal amount, term, payment dates)
- Copies of all International Swaps Derivatives Association (ISDA) agreements
- Counterparty name and contact details
- Nominal limit
- Amount of unsecured threshold
- Details of collateral accepted
- Valuation frequency
- Latest and history of, mark-to-market valuations
- Details of cash collateral provided
- Details of property collateral provided

## Other liabilities:

- Guarantees to investors or other parties to meet debt payments or to rectify the performance of a subsidiary, joint venture, special purpose vehicle or other connected entity, in the event of that entity failing to meet those obligations.
- Letters of support to subsidiaries, joint venture partners, special purpose vehicles or other connected entities to support their continued trading as going concerns.
- Potential impairments to equity stakes or on-lending to subsidiaries, joint ventures and special purpose vehicles
- Performance penalties or claw-back arrangements
- Commitments under sale and leaseback arrangements
- Commitments and cancellation penalties under any other long-term contracts
- Building leases, including rent and dilapidations clauses
- Equipment leases
- Management agreements
- Warranties on past property or land disposals
- Contractual redundancy obligations, including rights to pension top-ups
- Employment and tax disputes
- Pension deficits, deficit crystallisation triggers and deficit recovery contributions
- Any other outstanding disputes/litigation

# Schedule B:
## Suggested elements of a stress test

Each association will construct its own perfect storm(s) by combining the unique challenges that it faces, be they driven by geography, scale, ambition or exposure to market and contract risk and over time. These should link to both the strategic risk map and the contingent liabilities logged in the asset and liability registers. We set out below a menu of possible events that could go into the mix in combination. Providers may wish to document which events have been disregarded and why. This cannot be considered as a definitive or complete list. Associations must assess their own business requirements.

- A downturn in the housing market including the impact on:
  - Outright sale and shared ownership, values, volumes and timing
  - Demand for social rented properties
  - Market and affordable rents
  - Security valued at market value, subject to tenancy
- Increased competition from the private rented sector
- Interest rate increases leading to increased interest costs
- Interest rate decreases leading to mark-to-market calls for cash or security to meet obligations on stand-alone swaps.
- Triggers of cross-default clauses across the group
- Inability to walk away from, or delays in walking away from, a failing subsidiary or partnership due to fears of reputational damage, leading to elevated requirements for financial support.
- Inability to cancel, or delays in cancelling, developments and associated contracts
- Funding market disruption leading to liquidity problems
- A re-pricing of existing bank debt as a consequence of covenant breaches, a change in lenders' views of market conditions (notably following the inability of regulation to ensure no-loss-on-default) or negotiations. to remove restrictive covenants. Note the re-pricing of a lender's margin will impact on variable and fixed rate debt.
- Counterparty failure, for example a repairs contractor
- A loss of reputation so significant as to impact on income, costs or growth opportunities. For example causing death or life-altering injuries to a resident or member of staff and neglect or abuse in a care or support setting.

- Poor contract performance of a key supplier requiring unplanned expenditure to rectify
- Own poor contract performance and possible penalties
- Loss of important contracts and associated contribution to overheads
- A joint venture failure, including write-down of an equity stake and loss of on-lent funds
- Continued and/or radical welfare reform including developments such as:
  - Reductions in the welfare cap
  - Removal of housing benefit for under 25s
  - Freezes in rents and/or housing benefit
  - The impact on security valued at existing use value
- Population flight, for example in rural or economically deprived areas
- Right to Buy: significantly extended eligibility and/or increased discounts, including potential accounting treatment impacts, for example, reductions in grant rates.
- Tighter legislative or regulatory restrictions on rent increases
- Other government policy changes which have the potential to significantly impact on income, costs and/or covenants.
- Low inflation or deflation
- Differential inflation, so wages and other costs rising faster than rents
- Residents' earnings rising slower than the rent formula, leading to affordability pressures
- Pension contributions and deficit recovery plan increases
- Impairment, including land and investments

**Each association**

will construct its own perfect storm(s) by combining the unique challenges that it faces, be they driven by geography, scale, ambition or exposure to market and contract risk and over time.

# Appendix: FAQs

**1. Do all housing associations have to conduct stress tests and produce asset and liability registers?**

Yes. All registered providers are required to meet all regulatory standards. Although associations with fewer than 1,000 units generally have much less regulatory engagement, they are still subject to the requirements of the standards. However they can ask to see them if they wish. Whilst the standard applies to all, associations will want to respond in a way that is proportionate to their circumstances.

**2. What if we are a for-profit provider?**

For-profit providers are required to produce asset and liability registers and conduct stress testing exercises in the same way as other housing associations. For the avoidance of doubt, all categories of registered provider are required to fulfil these regulatory requirements.

**3. When will housing associations have to comply with the new regulations?**

The boards of all providers are expected to certify in their annual financial statements for 2015/16 that they meet all relevant regulatory standards – this includes having asset and liability registers and stress testing. However given that these requirements have been flagged for some time prior to publication of the new standard, the HCA expects providers to have quickly begun to put these elements in place.

**4. If we are a subsidiary of a larger organisation, will they take care of this for us?**

Yes, it should do as the parent organisation has a responsibility to ensure its subsidiaries comply with all relevant regulations. However, the board of a registered provider, even if it is a subsidiary, remains responsible for certifying compliance with the regulatory standards. If the parent is unregistered, the responsibility lies squarely with the board of the registered provider.

**5. Is the HCA introducing ring-fencing and living wills?**

No. Both elements were proposed by the HCA in its initial consultation in April 2013, but both ideas have since been dropped. However the building blocks of a "living will" are encapsulated in the requirement for asset and liability registers.

**6. Will the HCA want to check our asset and liability registers every year?**

No. At the time of writing the HCA does not expect to routinely view the registers, rather it has indicated that it will ask to see them if it has concerns about an organisation's risk profile. At that point the organisation must be able to produce its asset and liability registers immediately and these will be expected to be comprehensive, accurate and up to date. Notwithstanding this, boards of housing associations will be required to certify each year in their annual financial statements that they meet all the relevant regulatory standards. This includes the existence of up-to-date asset and liability registers and stress tests.

**7. When and how will the HCA check it is satisfied with the stress testing we have conducted?**

The HCA will want to see the results of stress testing exercises each time it conducts an in-depth assessment of a provider. Unless there are any regulatory concerns, these are expected to take place once every 3-4 years.

**8. How often should we conduct stress tests?**

For the board to have adequate assurance on the resilience of the business a robust series of stress tests should be updated with each new business plan and following any significant change in the external environment, risk map, covenants or structure of the organisation.

**9. If the Bank of England sets out scenarios against which banks should stress test themselves, why doesn't the HCA provide similar guidance?**

The HCA has steered away from prescribing the scenarios that associations should explore. Not least because each association faces a unique combination of challenges driven by geography, scale, ambition and exposure to market and contract risk.

## Stress tests

should be updated with each new business plan and following any significant change in the external environment, risk map, covenants or structure of the organisation.

**The National Federation is the voice of affordable housing in England. We believe that everyone should have the home they need at a price they can afford.**

That's why we represent the work of housing associations and campaign for better housing. Our members provide two and a half million homes for more than five million people. And each year they invest in a diverse range of neighbourhood projects that help create strong, vibrant communities.

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