GOVERNANCE AND DISCLOSURE GUIDELINES FOR HOUSING ASSOCIATIONS SEEKING FUNDING FROM CAPITAL MARKETS

November 2022

ABOUT THE INVESTMENT ASSOCIATION (IA):

The IA champions UK investment management, supporting British savers, investors and businesses. Our 250 members manage £10 trillion of assets and the investment management industry supports 122,000 jobs across the UK.

Our mission is to make investment better. Better for clients, so they achieve their financial goals. Better for companies, so they get the capital they need to grow. And better for the economy, so everyone prospers.

Our purpose is to ensure investment managers are in the best possible position to:

- Build people's resilience to financial adversity
- Help people achieve their financial aspirations
- Enable people to maintain a decent standard of living as they grow older
- Contribute to economic growth through the efficient allocation of capital

The money our members manage is in a wide variety of investment vehicles including authorised investment funds, pension funds and stocks and shares ISAs. The UK is the second largest investment management centre in the world, after the US and manages over a third (37%) of all assets managed in Europe.

INVESTMENT MANAGERS AND THE UK HOUSING ASSOCIATION SECTOR

In recent years Housing Associations have increasingly turned to the debt capital markets to meet their long-term funding needs. Since 2012 Housing Associations have raised nearly £34bn of debt in capital markets, to supplement £27bn raised through banking financing.[1] This growing reliance on capital markets for funding is set to continue.

Asset managers, on behalf of their insurance and pension fund clients, play a key role in providing this funding to the sector. For investors seeking to match their assets and their long term liabilities, Housing Association debt is an attractive asset class due to:

- the strong asset base;
- stable predictable income streams;
- government support through capital grant, housing benefit and Universal Credit, and regulation;
- a relatively limited range of alternative long-dated sterling opportunities; and
- investment grade ratings, typically between A+ and BBB, with the majority in the A and A- categories.

Given the changing profile and funding needs of the sector and the favourable pricing and capital that institutional investors are able to provide, the relationship between institutional investors and Housing Associations is particularly important. The key to harnessing this relationship is greater transparency and visibility on how Housing Associations are performing and how they are governed.

Transparency is essential for issuers of securities in capital markets as this has an impact on investor confidence, impacts pricing in secondary markets, and affects the ability of issuers to attract a broader investor base. In addition, there are regulatory requirements that require certain disclosures to be made on a timely basis.

The Investment Association, acting on behalf of its members as long-term investors in Housing Associations, has produced these updated Disclosure Guidelines, setting out investor expectations on certain disclosures for Housing Associations seeking funding from capital markets.

Most of the information investors are seeking will already be produced by any Housing Association that has listed debt securities or is seeking funding in debt capital markets, so the only shift that is needed is to ensure that this information is easily accessible and publicly available.

[1] Regulator of Social Housing Quarterly survey of private registered providers, https://www.gov.uk/government/collections/quarterly-survey-of-private-registered-providers

DISCLOSURE TO INVESTORS

Investors are keen to see greater transparency from Housing Associations as to performance, governance and ESG matters. However, just as important as the disclosures investors are looking for, is how those disclosures are made. Clear, consistent channels of communication between Housing Associations and investors are of critical importance, particularly since the communication of information from issuers to investors is subject to certain regulatory requirements.

There are concerns that in the past investors have been inadvertently made insiders by Housing Associations which, unaware of the requirements relating to insider information, have disclosed material information to some investors and not others. As a result the investor who has been in receipt of the information has been legally barred from trading any security until the relevant material information is made public.

To ensure that all disclosures to investors are made in a proper manner, it is important to ensure that there is an explicit channel for communication with investors.

Our Recommendations:

Housing Associations should:

- hold regular bondholder update calls to give investors the opportunity to ask questions. These should be held at least annually.
- have an investor relations officer or a key contact person to manage the process through which they engage with investors. Housing Associations should ensure their Chief Executive Officer and Chief Financial Officer are available for contact by investors.
- publish all relevant information and key disclosures on a dedicated part of their website such as an "investor relations" page which can act as a repository for all information investors would like to see.
- publish ESG policies, as well as relevant ESG reporting, with a dedicated page on the Housing Association's website, linked from the "investor relations" page. As well as reporting against ESG KPIs, this page should include statements on issues such as Modern Slavery, and Equality, Diversion & Inclusion.
- disclose material information as soon as possible once management becomes aware of it, via a Regulatory Information Service (except in certain conditions – see below). Only once officially announced in this way should it then be published on the Issuer's website.
- where issuing 'Sustainable' finance framework debt or similar, investors preference will be for those structures that are accompanied by external validation or second party opinion.
- consider offering investors the opportunity to sign up to distribution lists and/or email alerts that promptly notify investors of new reports and announcements.

REGULATORY BACKDROP

Under the UK Market Abuse Regulation (MAR), an UK-wide framework for tackling both insider dealing and market manipulation which applies to all securities admitted to trading on a trading venue in the UK, improper disclosures can constitute market abuse. The FCA considers the following to be improper disclosure:

- Disclosure of inside information by the director of an issuer to another in a social context; and
- Selective briefing of analysts by directors of issuers or others who are persons discharging managerial responsibilities.[2]

Article 7 of MAR defines inside information as *"information of a precise nature, which has not been made public, relating, directly or indirectly, to one or more issuers or to one or more financial instruments, and which, if it were made public, would be likely to have a significant effect on the prices of those financial instruments."*

This could include information affecting:

- The assets and liabilities, performance or expectations, financial condition or business of the company;
- Major new developments in the company's business; or
- Information previously disclosed to the market.

There are instances where a Housing Association may delay the publication of inside information. To do so, all of the following conditions should be met:[3]

- immediate disclosure is likely to prejudice the legitimate interests of the issuer;
- delay of disclosure is not likely to mislead the public; and
- the Issuer is able to ensure the confidentiality of the information.

In these circumstances, it is important to:

- maintain an "insider list" of all those who hold inside information; and
- to inform the regulator that the disclosure of information has been delayed and provide a written explanation of how the conditions set out above have been met.

The Investment Association recommends that Housing Associations seek legal advice to ensure that they are meeting all their obligations under the Market Abuse Regulation.

Since 2012 Housing Associations have raised nearly **£34bn of debt in capital markets**, to supplement £27bn raised through banking financing

[1] Regulator of Social Housing Quarterly survey of private registered providers, https://www.gov.uk/government/collections/quarterly-survey-of-private-registered-providers
[2] FCA Handbook, MAR 1.4 https://www.handbook.fca.org.uk/handbook/MAR/1/4.html?date=2016-06-17
[3] Article 17, UK Market Abuse Regulation, https://www.fca.org.uk/markets/market-abuse/regulation

PERFORMANCE AND ESG REPORTING

Investors use the annual reports and accounts, as well as other performance data, to monitor the credit risk that they are exposed to by lending to individual Housing Associations. It is therefore important that they receive this information within a reasonable timeframe.

The FCA Handbook's Disclosure and Transparency Rules (DTR) set out the standards that issuers of equity and retail debt must adhere to as part of their ongoing disclosure requirements. Housing Associations only issue wholesale debt securities and are exempt from the rules. Nonetheless, investors consider the DTR to be standard market practice.

Housing Associations should consider the Housing Statement of Recommend Practice (SORP), which is issued by the National Housing Federation and provides guidance on accounting standards for social housing providers in the UK.[4] Where relevant housing associations should also comply with the ESMA Guidelines on Alternative Performance Measures.[5]

We would also expect Housing Associations to be aware of both regulatory obligations and investor expectations to disclose key environmental and social indicators. At a minimum, in order to understand growing investor demand and expectation Housing Associations should look to an established format such as Sustainability for Housing's Sustainability Reporting Standard for Social Housing.[6]

The list below sets out in more detail the information that investors are seeking with regard to performance reporting and secured asset disclosures.

Our Recommendations:

Housing Associations should:

- make public the annual report and accounts at the latest three months after the end of each financial year. Housing Associations should commit to a set publication date in advance, in line with corporate issuers.
- make public half-yearly accounts covering the first six months of the financial year. The half-yearly financial report may be unaudited but should be made public as soon as possible, but no later than six weeks after the end of the period to which the report relates. Timeliness is key for investors.
- ensure that the annual report and accounts and half-yearly financial accounts remains available to the public for at least ten years, and listed on the investor relations page of the Housing Association's website. Housing Associations should ensure that this information remains throughout website changes.
- publish regular updates on their key performance indicators, and relevant information on the secured assets for all types of financial security.
- publish a statement on compliance with any relevant public debt covenants.

[4] Housing SORP, https://www.housing.org.uk/our-work/finance/accounting/
[5] ESMA Guidelines on Alternative Performance Measures, https://www.esma.europa.eu/sites/default/files/library/2015/10/2015-esma-1415en.pdf
[6] Sustainability for Housing's Sustainability Reporting Standard for Social Housing, https://sustainabilityforhousing.org.uk/sfh-resources/

PERFORMANCE AND ESG REPORTING

- Issuers should publish on the investor relations page of their website, on a regular basis, an update of Key Performance Indicators (KPIs). KPIs should ideally be supported by targets for improvement, and should include:
  - Void/vacancy rates
  - Average time to re-let vacant properties
  - Rent arrears levels, both in absolute and as a percentage of receivable rent levels, by 1+/30+/60+/90+ on a contractual basis.
  - Affordability metrics, such as monthly rent as a percentage of local housing allowance
  - Losses due to repossession.
  - A breakdown of rent and sales levels by property type (social housing/affordable/market value) and location.
  - Performance of other commercial activities.
- Issuers should also publish details of properties, including construction and remedial works. These should include:
  - Size and value of undeveloped land and property
  - Number of properties under development
  - Number of properties sold or part-sold
  - Inventory of unsold properties
  - Inventory of type and age of all properties
  - Percentage of homes with an up to date fire risk assessment
  - Details on any properties that do not meet the terms of the UK Government's Decent Homes Standard[7]
  - Remedial works required
    - Percentage of units affected by issues requiring remedial works.
    - Granular breakdown of reasons for remedial works, and in particular details on cladding issues remaining.
    - Scale, cost (paid and outstanding), and expected timelines of work.
    - Number of leaseholders impacted
- Environmental disclosures
  - Emissions data under SCOPE 1, 2 and 3
  - Percentage and location of properties with EPC ratings (metrics for new builds, existing builds and overall), and estimated capital expenditure required to achieve at least an EPC C rating on all properties by 2030 in line with government decarbonisation targets.
  - Details on climate reporting and status in accordance with the TCFD Reporting Framework, including plans to achieve Net Zero by 2050.
  - There should be uniformity of reporting to allow for benchmarking against prior year(s).
- Social disclosures
  - Percentage of tenants on Universal Credit
  - Customer satisfaction.
    - Breakdown by age and ethnicity of complainant to identify potential for discriminatory treatment
  - Gender and ethnicity breakdown of:
    - Employment data
    - Pay gap information on directors, management and employees
  - A qualitative discussion of social impact, and efforts made by Housing Associations to support tenants.

SECURED ASSETS DISCLOSURES

- Issuers should publish on their website relevant information on secured assets for all types of financial security. Such disclosures should include:
  - By pool:
    - Details of encumbered properties, including value
    - The last valuation, and the date of the next valuation. Securities should be revalued every year.
    - Any changes in properties in the pool.
  - Details on the volume and value of unencumbered properties, and their ability to be charged.

[7] UK Government Decent Homes Standard, https://www.gov.uk/government/publications/a-decent-home-definition-and-guidance

GOVERNANCE

Investors expect Housing Associations, as issuers on capital markets, to have established and defined governance structures, as these structures provide the means for effective management of the long-term strategy of the organisation. The desired structure can be found with reference to one of the corporate governance codes which a Housing Association can choose to subscribe to, either the **NHF's Code of Governance**, or the **FRC's UK Corporate Governance Code**, which applies to wider participants of capital markets.

Investors need to be able to understand the workings of the Board and how the Board carries out its responsibilities, and Housing Associations should therefore report to investors on their governance structures and how they comply with their chosen Code.

Investors recognise that the mutual and social purpose of Housing Associations may lead to areas of deviation from the Codes' provisions. The Codes both operate on a "comply-or-explain" basis. Therefore areas where a Housing Association's structure differ can be accommodated where they are justified with a clear explanation.

Our Recommendations:

Housing Associations should:

- state in the Annual Report how their governance structures comply with the Code which they follow.
- have a defined structure of Board responsibilities and detail in the Annual Report how these responsibilities are divided between committees.
- provide investors with a clear breakdown of any group structures in the Annual Report and on the website, detailing the level of control of the parent Housing Association over any subsidiaries.
- have a standardised and transparent selection process for board members, with clear consideration of diversity.
- publicise the appointment of any new directors.
- Include in the Annual Report the details of the tenure of existing Board members, their renumeration and how their individual skills fit with the strategy of the Housing Association.
- schedule at least annually an opportunity for the Board to evaluate their own performance, and whether they have the right mix of skills to approach the challenges they face.
- have appropriate succession plans in place for the refreshment of the Board.
- disclose diversity policies and report on diversity of senior management.

THE
INVESTMENT
ASSOCIATION

The Investment Association
Camomile Court, 23 Camomile Street, London, EC3A 7LL

www.theia.org
@InvAssoc

November 2022