

CREDITWORTHINESS

1. Extract from Treasury Management Practices

1.1 The Authority is required to invest prudently and demonstrate that priority is given to security and liquidity before yield. Creditworthiness covers:-

- a) Credit quality for selecting counterparties.
- b) Credit ratings for institutions and country.

2. Credit Quality

2.1 The criteria for providing a pool of high quality investment counterparties for both Specified and Non Specified investments is as follows:

Banks with a Good Credit Quality

- a) UK banks
- b) Non UK banks domiciled in a country, which has a minimum Sovereign long term rating of AA-.
- c) Meet the requirements of the short terms and or long-term credit matrixes set out in 2 below.

UK Part Nationalised Banks

- d) Royal Bank of Scotland Group and Lloyds Banking Group whilst they continue to be part nationalised, or meet the requirements of the credit matrixes.
- e) The Authority's banker - National Westminster Bank (NWB), for transactional purposes. NWB is a subsidiary of the Royal Bank of Scotland. For investment purposes investments are made with the Royal Bank of Scotland (RBS). RBS is a part nationalised bank. If this were to cease and the ratings of RBS did not meet the creditworthiness criteria then cash balances would be minimised in both monetary size and time.

Bank Subsidiary and Treasury Operations

- f) The Authority will use these where the parent bank has the necessary ratings outlined above.

Building Societies – the Authority will use Building Societies that:

- g) Meet the requirements of the short term and or long term credit matrixes set out in 2 below; or
- h) Have assets in excess of three billion.

AAA rated Money Market Funds

- i) UK Government (including gilts and the Debt Management Account Deposit Facility)
- j) Local Authorities (including Police and Fire Authorities)

3. Credit Criteria

3.1 The Authority adopts a range of credit rating criteria. Creditworthiness is based on the credit ratings of all three credit rating agencies supplied by Fitch, Moody's, and Standard & Poors. Where appropriate, the rating criteria applied will be the "lowest common denominator" method for selecting counterparties and applying limits using all three credit rating agencies. This means that the application of the Authority's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies, one meets the Authority's criteria, the other does not, then the institution will fall outside the lending criteria. This is in compliance with the revised CIPFA Treasury Management Code of Practice.

Short Term Credit Matrix

3.2 For short term lending (less than one year) the following minimum credit criteria for Banks and Rated Building Societies will apply using the lowest common denominator method:

	Fitch		Moody's		S&P's	
	Highest	Lowest	Highest	Lowest	Highest	Lowest
Long term credit	AAA	A	Aaa	A2	AAA	A
Short term credit	F1+	F1	P-1	P-2	A-1+	A-1
Viability rating	aaa	bb-	*	*	*	*
Financial Strength	*	*	A	C-	*	*
Support	1	3	*	*	*	*

* - no equivalent/comparable rating criteria

Long Term Credit Matrix

3.3 For Long Term lending (more than one year), the following minimum credit criteria will apply using the lowest common denominator method:

	Fitch		Moody's		S&P's	
	Highest	Lowest	Highest	Lowest	Highest	Lowest
Long term credit	AAA	AA-	Aaa	A1	AAA	AA-
Short term credit	F1+	F1+	P-1	P-1	A-1+	A-1+
Viability rating	aaa	bb+	*	*	*	*
Financial Strength	*	*	A	C	*	*
Support	1	3	*	*	*	*

* - no equivalent/comparable rating criteria

Long Term – relates to long term credit quality

Short Term – relates to short term credit quality

Viability/Financial Strength – Strength of the organisation as a stand alone entity

Support – Fitch's assessment of whether the bank would receive support if necessary

Monitoring of Investment Counterparties

3.4 The credit rating of counterparties is monitored regularly. The Authority receives credit rating information (changes, rating watches and outlooks) from Butlers as and when ratings change and counterparties are checked promptly. Any counterparty failings to meet the criteria is removed from the list immediately.

Use of additional information other than credit ratings

3.5 The Code of Practice requires the Council to supplement credit rating information. The above criteria relates primarily to the application of credit ratings, however additional operational market information such as negative ratings watches / outlooks and financial press information must be considered before any specific investment decisions can be made. In addition, movement in credit default swap prices can provide an indication of credit risk, as can the rate of interest being offered if it is out of line with the market.

Country Sovereignty Considerations

3.6 Due care will be taken to consider the country, group and sector exposure of the Authority's investments, no more than 25% of the total investment portfolio will be placed with any non UK country at any time.

3.7 For countries other than the UK, sovereignty ratings must fall within the ratings matrix below, using the lowest common denominator approach, before the country can be considered for inclusion on the lending list and then each individual institution domiciled to that country must meet the high credit quality criteria as detailed, and the credit matrixes.

	Fitch		Moody's		S&P's	
	Highest	Lowest	Highest	Lowest	Highest	Lowest
Sovereign ratings	AAA	AA-	Aaa	Aa3	AAA	AA-

A Fitch rating of 'AAA' denotes the highest credit rating quality with the lowest expectation of default risk. The lowest rating 'C' denotes that default is imminent and a rating of 'D' denotes that the issuer is currently in default.

4. Time and Monetary Limits applying to Investments

Type of Investment	Minimum Fitch rating (or equivalent)				Limit £'m	Time Limit
	1*	2*	3*	4*		
Credit rated Institutions	F1+	A	a-	3	5	1 Year
	F1+	A	bb-	1	4	1 Year
	F1+	A	bb-	3	4	1 Year
	F1	A	a-	3	3	1 Year
	F1	A	bb-	1	3	1 Year
	F1	A	bb-	3	2	1 Year
	F1+	AA-	a-	2	3	3 Years
	F1+	AA-	bbb	3	2	3 Years
	F1+	AA-	bb+	1	2	3 Years
	F1+	AA-	a-	2	3	3 Years
	F1+	AA-	bbb	2	2	3 Years
	F1+	AA-	bb+	1	1	3 Years
Other Institutions						
Money Market Funds	AAAmf				3	1 Year
Unrated Building Societies	Assets greater £3bn				3	3 Months
Other						
UK Government – DMADF					30	3 Years
UK Government – Part-Nationalised Banks					5	1 Year
Local Authorities					5	3 Years

1* Short Term – relates to long term credit quality

2* Long Term – relates to short term credit quality

3* Viability/Financial Strength – Strength of the organisation as a stand alone entity

4* Support – Fitch's assessment of whether the bank would receive support if necessary