

## Institutions

B.5.1. The Council will use specific credit ratings to determine which institutions can be used for investments. For specified investments, an institution will require the highest short-term credit rating from at least one of the three main credit rating agencies. The Council does not expect to make non-specified investments, so no additional criteria are provided.

### **Banks and building societies**

B.5.2. For banks and building societies, the following minimum requirements will permit only high quality institutions to be on the Council's lending list but will also allow a wide spread of institutions to choose from:

Rating	Fitch or equivalent from Moody's and Standard & Poor's
Short-term	F1
Long-term	A-

B.5.3. Equivalent ratings are used as not all institutions are rated by all three rating agencies. Where an institution is rated by more than one agency, the lowest ratings will be used to determine whether it qualifies for inclusion on the list. This practice is known as the Lowest Common Denominator approach.

### **Money market funds**

B.5.4. Use of seven money market funds with the individual amount to a single fund set at £25m, with qualifying funds requiring a AAA rating from Fitch, Moody's or Standard & Poor's (two out of the three rating agencies).

### **Enhanced Cash / Bond Funds**

B.5.5. The Council will consider using enhanced cash funds as part of its investments in 2013-14. Criteria for suitable funds is a fund credit quality (FCQ) rating of AAA and a fund volatility rating (FVR) of s1 (or equivalent) from one of the three main rating agencies (Fitch, Moody's or Standard & Poor's). The criteria would only allow the Council to use funds with the highest FCQ and those funds where performance has a low sensitivity to changing market conditions.

### **Other institution types**

B.5.6. The following institutions are mentioned explicitly in the new guidance and associated legislation. Councils are not expected to lay down specific criteria for including these types of institution as they are either UK Government institutions or have a UK Government guarantee.

- UK Government including gilts and the Debt Management Office
- Local authorities as defined by the Local Government Act 2003
- Supranational institutions, e.g., the European Investment Bank

### **Specified investments**

B.5.7. All such investments will be sterling denominated, with maturities up to maximum of one year, meeting the minimum 'high' rating criteria where applicable.

	<b>Minimum 'High' credit criteria</b>
DMA deposit facility	-
Term deposits: local authorities	-
Term deposits: part nationalised banks	Short-term F1
Term deposits: UK banks and building societies	Short-term F1, Long-term A-
Term deposits: overseas banks	Short-term F1, Long-term A- (AAA rated countries)
Money market funds	AAA
Enhanced Cash / Bond Funds	AAAf / s1 or equivalent

**Effective counterparty limits**

Type	Fitch		Moody's		S&P		Maximum Value	Maximum Term
	ST	LT	ST	LT	ST	LT		
Bank/Building Society	F1	A-	P-1	A3	A1	A-	£20m	3 months
Bank/Building Society	F1+	AA-	P-1	Aa3	A1+	AA-	£25m	1 year
Bank/Building Society	F1+	AA	P-1	Aa2	A1+	AA	£35m	1 year
Money Market Funds	AAA		AAA		AAA		£25m	n/a
Enhanced Cash / Bond Funds	AAA / v1		Aaa-bf		AAAf / s1		£20m	n/a
Debt Management Office	-		-		-		Unlimited	6 months
Supranational	-		-		-		£10m	1 year
Local Authority	-		-		-		£20m	1 year

- i) Deposits are permitted with UK banks that do not comply with the Council's credit rating criteria subject to them being nationalised or part nationalised by the UK government.
- ii) The use of Money Market Funds is restricted to funds with three AAA ratings (from two of the three rating agencies) up to a maximum of £175m (with a maximum of £25m per Money Market Fund).
- iii) £60m (per call account) is made available to invest in overnight high interest call accounts with RBS and Lloyds. This will be maintained while they remain part nationalised.

B.5.8. Deposits with foreign banks are permitted, on the condition that they meet our minimum criteria, and that the country in which the bank is domiciled is AAA-rated with any of the three ratings agencies (Fitch, Moody's and Standard and Poor's).

- MMF = Money Market Fund
- DMADF = Debt Management Account Deposit Facility at the Bank of England
- ST = Short-Term
- LT = Long-Term

F1 Indicates the strongest capacity for timely payment of financial commitments; an added "+" denotes any exceptionally strong credit feature.

P-1 Indicates superior credit quality and a very strong capacity for timely payment of short-term deposit obligations. No enhanced rating available.

A-1 Indicates a strong capacity to meet financial commitments; an added "+" denotes a capacity to meet financial commitments as extremely strong.

**Illustrative counterparty list as at 1 January 2015**

	Fitch Ratings		Moody's Ratings		S&P Ratings	
	S/T	L/T	S/T	L/T	S/T	L/T
<b>UK</b>		AA+		AA1		AAA
HSBC	F1+	AA-	P1	AA3	A1	AA-
Lloyds	F1	A	P1	A1	A1	A
Royal Bank of Scotland	F1	A	P2	BAA1	A2	A-
Nationwide Building Society	F1	A	P1	A2	A1	A
Barclays	F1	A	P1	A2	A1	A
Santander (UK)	F1	A	P1	A2	A1	A
<b>Australia</b>		AAA		AAA		AAA
Australia & NZ Banking Group	F1+	AA-	P1	AA2	A1+	AA-
Commonwealth Bank of Australia	F1+	AA-	P1	AA2	A1+	AA-
Macquarie Bank	F1	A	P1	A2	A1	A
National Australia Bank	F1+	AA-	P1	AA2	A1+	AA-
Westpac Banking Corporation	F1+	AA-	P1	AA2	A1+	AA-
<b>Canada</b>		AAA		AAA		AAA
Canadian Imperial Bank	F1+	AA-	P1	AA3	A1	A+
Bank of Montreal	F1+	AA-	P1	AA3	A1	A+
Bank of Nova Scotia	F1+	AA-	P1	AA2	A1	A+
Royal Bank of Canada	F1+	AA	P1	AA3	A1+	AA-
Toronto-Dominion Bank	F1+	AA-	P1	AA1	A1+	AA-
<b>Germany</b>		AAA		AAA	A+	AAA
DZ Bank	F1+	A+	P1	A1	A1+	AA-
KfW	F1+	AAA	P1	AAA	A1+	AAA
Landwirtschaftliche Rentenbank	F1+	AAA	P1	AAA	A1+	AAA
<b>Singapore</b>		AAA		AAA		AAA
Development Bank of Singapore	F1+	AA-	P1	AA1	A1+	AA-
Oversea Chinese Banking Corp	F1+	AA-	P1	AA1	A1+	AA-
United Overseas Bank	F1+	AA-	P1	AA1	A1+	AA-
<b>Sweden</b>		AAA		AAA		AAA
Skandinaviska Enskilda Banken	F1	A+	P1	A1	A1	A+
Svenska Handelsbanken	F1+	AA-	P1	AA3	A1+	AA-
Swedbank AB	F1	A+	P1	A1	A1	A+
<b>Switzerland</b>		AAA		AAA		AAA
UBS AG	F1	A	P1	A2	A1	A

This page is intentionally left blank