APPENDIX C

Risk and Credit Environment	2018
Bail In The risk arises from banks failing, regulation places the burden of losses on the banks investors. This is as opposed to a government a bail-out which is what happened at the last financials crisis in 2008.	**Local Context** Some public bodies will carry higher levels of long-term cash, and as a result need to invest long-term, the Council generally has cash that will be needed in the short-term and as a result places funds where they are accessible in the short-term.
Credit Ratings There were a few credit rating changes during the period. Moody's downgraded Barclays Bank plc's long-term rating to A2 from A1 and NatWest Markets plc to Baa2 from A3 on its view of the credit metrics of the entities post ring-fencing. Upgrades to long-term ratings included those for Royal Bank of Scotland plc, NatWest Bank and Ulster Bank to A2 from A3 by Moody's and to A- from BBB+ by both Fitch and Standard & Poor's (S&P). Lloyds Bank plc and Bank of Scotland plc were upgraded to A+ from A by S&P and to Aa3 from A1 by Moody's.	**Local Context** The Council monitors credit ratings and credit default swaps, these are used to make decision about which institutions to invest with, based on the parameters set within the Treasury Management strategy The council receives a monthly listing from its treasury management advisors (Arlingclose) showing the rates and durations for a range of financial institutions.
Money Market Funds The new EU regulations for Money Market Funds were finally approved and published in July and existing funds will have to be compliant by no later than 21st January 2019. The key features include Low Volatility NAV (LVNAV) Money Market Funds which will be permitted to maintain a constant dealing NAV, providing they meet strict new criteria and minimum liquidity requirements. MMFs will not be prohibited from having an external fund rating (as had been suggested in draft regulations). Arlingclose expects most of the short-term MMFs it recommends to convert to the LVNAV structure and awaits confirmation from each fund.	**Local Context** The Money Market Funds will be required to meet stricter standards than those that are currently in place. The new standards will require; • increased liquidity in the fund • a tighter "collar" only allowing 0.2% rather than the previous 0.5%, • no sponsor support is allowed so funds have to be self-sustaining • The introduction of redemption gates
Credit Environment Reflecting its perceived higher risk, the Credit Default Swap (CDS) spread for non-ring-fenced bank NatWest Markets	**Local Context** The Council monitors credit ratings and credit default swaps, these are used to make decision about which institutions to

plc rose relatively sharply over the period to around 96bps. The CDS for the ring-fenced entity, National Westminster Bank plc, has held steady below 40bps. Although the CDS of other UK banks rose marginally over the period, they continue to remain low compared to historic averages. The ring-fencing of the big four UK banks - Barclays, Bank of Scotland/Lloyds, HSBC and RBS/Natwest Bank PLC, is complete, the transfer of their business into retail (ring-fenced) and investment banking (non-ring-fenced) is progressing and will need to be completed by the end of 2018.	invest with, based on the parameters set within the Treasury Management strategy. The Council's investments are in the majority of short duration as a consequence, any adverse movements in credit ratings would be a signal to remove investments from those institutions. The Council uses Natwest for its transactional banking, but keeps the investment balance held with Natwest to a maximum of £1m.