APPENDIX C

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

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.