

BUCKINGHAMSHIRE COUNTY COUNCIL – AUTHORISED BORROWERS

This schedule sets out the criteria used to select the credit rated banks and building societies where the Council invests its cash in term deposit structures.

Geographical Spread

A country is assigned a sovereign rating which signifies a country's ability to provide a secure investment environment which reflects factors such as economic status, political stability and foreign currency reserves. The strongest sovereign rating that can be achieved is "AAA", "AA+" is the next strongest.

The Council invests in the UK or specified AAA and AA+ sovereign rated countries, the total maximum that can be invested in an individual AAA sovereign rated country is £30m and the total maximum that can be invested in an individual AA+ sovereign rated country is £15m.

Countries that are currently AAA sovereign rated are Australia, Canada, Denmark, Finland, Germany, Luxembourg, ~~Netherlands~~, Norway, Singapore, Sweden and Switzerland ~~United Kingdom~~. Austria, France, ~~Netherlands~~, ~~United Kingdom~~ and the USA are currently AA+ sovereign rated.

Santander UK plc and Clydesdale Bank plc are deemed to be UK institutions, although their parent banks are based in Spain and Australia respectively. Both banks have extensive UK operations.

Sovereign credit rating criteria and foreign country limits will not apply to investments in multilateral development banks (e.g. the European Investment Bank and the World Bank) or other supranational organisations (e.g. the European Union).

Creditworthiness

The Council defines the following as being of ~~suitable~~ ~~high~~ credit quality for making investments, subject to the monetary and time limits shown.

	Monetary limit	Time limit for UK or AAA sovereign rated countries	Time limit for AA+ sovereign rated countries
Banks, building societies and other organisations holding long-term credit ratings no lower than AAA or equivalent	£25m each	5 years	5 years
Banks, building societies and other organisations holding long-term credit ratings no lower than AA+ or equivalent	£25m each	5 years	4 years
Banks, building societies and other organisations holding long-term credit ratings no lower than AA or equivalent	£25m each	4 years	3 years
Banks, building societies and other organisations holding long-term credit ratings no lower than AA- or equivalent	£25m each	3 years	2 years
Banks, building societies and other organisations holding long-term credit ratings no lower than A+ or equivalent	£25m each	2 years	1 year
Banks, building societies and other organisations holding long-term credit ratings no lower than A or equivalent	£10m each	18 months	6 months
Banks, building societies and other organisations holding long-term credit ratings no lower than A- or equivalent, with assets greater than £1bn	£10m each	6 months	6 months

Group Limits

The maximum amount invested with a connected group of counterparties is £20m (although the maximum investment with a single counterparty within any group is dependent on the bank's credit rating). Investments in part nationalised and nationalised banks are not subject to a government group limit.

Credit Watch / Outlook

From time to time an institution will be placed on negative watch or negative outlook, indicating that a downgrade is either likely or possible in the future. Watches are considered short term actions, whereas outlooks are considered over a longer time horizon. If an institution is on negative watch so that it is likely to fall below the above criteria, then no further only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced.

Credit Default Swaps (CDS)

Credit rating agencies lag market events and therefore do not provide investors with an up to date picture of the credit quality of a particular institution. A CDS is a financial instrument which insures against the risk of a counterparty defaulting on its credit. When the cost of this insurance is highest, then it is more likely that the market considers a credit event will occur. Each week month Arlingclose provides CDS spreads information enabling the Treasury Team to monitor short, medium and long term trends of CDS spreads. If there is a spike in the values of CDS's due to adverse market conditions, then Arlingclose alert the Treasury Team immediately.