

## APPENDIX A

### **SUBJECT - UK BANKS PLACED ON 'NEGATIVE WATCH'**

#### **Current scenario**

The Council's assigned Treasury adviser (Link Asset Services) has confirmed that Fitch Ratings has placed all UK Banks on 'negative watch'.

This negative watch reflects the heightened uncertainty regarding the ultimate outcome of the ongoing Brexit negotiations and the increased risk that a disruptive 'no-deal' Brexit (where the UK will leave the European Union (EU) with no formal withdrawal agreement in place) will result in adverse trading conditions for these UK banks within their respective financial markets. Fitch Ratings expect to revisit the assignment of this negative watch assessment in late 2019 following the UK's exit from the EU on Thursday 31 October 2019. It is possible though that the negative watch may be further extended if Brexit negotiations are lengthened for an additional time period.

The Council's Treasury Management Strategy (TMS) refers to an overall credit worthiness policy and states that such sovereign credit ratings should not be regarded as the sole determinant in terms of an assessment of the quality of a financial institution that it intends to transact with. Credit default swaps data will also be referenced in addition to the ratings so as to determine overall credit worthiness.

The TMS does however state that in the event that any negative rating watch is applied to any counterparty, the Council will suspend transacting with this party and will need to review its arrangements with all other parties given the existence of these market conditions.

As of 30 September 2019, the Council holds a total value of £88.3m with UK counterparties, of which £57.0m are fixed term investments are un-callable, with £11.3m classified as short-term balances held with NatWest and Money Market Funds.

#### **Conclusion**

The Council's Finance department has opted to continue referencing the Link Asset Services counterparty list, and will endeavour to consider the credit rating swap data alongside the ratings information so as to determine the overall credit worthiness of counterparties.

**Due to the fact that the basis for the introduction of Fitch Ratings' negative watch is the wider UK geo-political environment surrounding Brexit, rather than any specific inherent weaknesses identified within the assigned UK counterparties, the Council's strategy will be to continue to transact with these organisations.** As an ongoing measure though, the Council will continue to ensure that the counterparty lists and limits used reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its treasury management investment activities to the instruments, methods and techniques referenced within the TMS. The TMS states that the minimum sovereign rating (for a counterparty) that the Council should transact with is AA.

The Council will continue to monitor the UK Government's Brexit negotiations in the lead-up to 31 October 2019 (the currently-proposed date of withdrawal from the EU).