

## **APPENDIX A – COUNTERPARTY LIST**

This Council applies the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands

	<b>Colour (and long term rating where applicable)</b>	<b>Money and/or % Limit</b>	<b>Time Limit</b>
<b>Banks *</b>	<b>yellow</b>	<b>£8m</b>	<b>2 yrs</b>
<b>Banks</b>	<b>purple</b>	<b>£8m</b>	<b>2 yrs</b>
<b>Banks – part nationalised</b>	<b>blue</b>	<b>£8m</b>	<b>2 yrs</b>
<b>Banks</b>	<b>orange</b>	<b>£5m</b>	<b>1 yr</b>
<b>Banks/Building Societies</b>	<b>red</b>	<b>£3m</b>	<b>6 mths</b>
<b>Banks</b>	<b>green</b>	<b>£2m</b>	<b>100 days</b>
<b>Building Societies</b>	<b>No colour</b>	<b>£2m</b>	<b>6 mths</b>
<b>DMADF</b>	<b>AAA</b>	<b>unlimited</b>	<b>6 months</b>
<b>Local authorities</b>	<b>n/a</b>	<b>£8m</b>	<b>2yrs</b>
<b>Money market funds</b>	<b>AAA</b>	<b>£8m</b>	<b>liquid</b>
<b>Enhanced money market funds with a credit score of 1.25</b>	<b>Dark pink / AAA</b>	<b>£8m</b>	<b>liquid</b>
<b>Enhanced money market funds with a credit score of 1.5</b>	<b>Light pink / AAA</b>	<b>£8m</b>	<b>liquid</b>

\* Please note: the yellow colour category is for UK Government debt, or its equivalent, constant NAV money market funds and collateralised deposits where the collateral is UK Government debt

Our creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of short term rating F1, long term rating A-, viability rating of A-, and a support

rating of 1 There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored daily. The Council is alerted to changes to ratings of all three agencies through its use of our creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on government support for banks and the credit ratings of that supporting government.

## **1.1 Country limits**

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA+ from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown below. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

## **1.2 Approved countries for investments**

### AAA

- Australia
- Canada
- Denmark
- Finland
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

### AA+

- France
- Hong Kong
- U.K.
- U.S.A.