

TREASURY MANAGEMENT PRACTICE (TMP1) – Credit and Counterparty Risk Management

Specified Investments: All such investments will be sterling denominated, with maturities up to a maximum of one year, meeting the minimum “high” quality criteria where applicable.

Non-Specified Investments: These are any investments which do not meet the specified investment criteria, and in the council’s case will include investment in Property Funds and Burnley College.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made, it will fall into one of the above categories.

Link Asset Services Methodology in Determining Creditworthiness of Counterparties:

Link Asset Services’ creditworthiness service employs a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- credit watches and credit outlooks from credit rating agencies
- Credit Default Swap [CDS] spreads to give early warning of likely changes in credit ratings and gauge a market view of the counterparty
- sovereign ratings to select counterparties from only the most creditworthy countries

Link Asset Services’ 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 code bands which indicate the relative creditworthiness of counterparties. These colour codes are used to determine the maximum duration for deposits and are therefore referred to as durational bands. This approach gives a much improved level of security for its deposits. The table below also shows the current limits for deposits with any bank or group of banks which is £2m except for the Councils own bank, HSBC, which has an individual limit of £50m and other named institutions below (£4m) .

Banks / Groups of Banks & Building Societies whose Individual Limit is £4m

The following banking institutions have individual limits of £4m:-

Lloyds Banking Group plc including Bank of Scotland and Lloyds Bank
 Royal Bank of Scotland Group plc including National Westminster Bank and Royal Bank of Scotland
 Abbey National Treasury Services plc
 Barclays Bank
 Santander UK plc
 Nationwide Building Society

Goldman Sachs International Bank

Banking Institutions Colour Bandings	Maximum Duration (Per Link Asset Services)	Current Individual Limits per Bank/Group of Banks (£)
White	0 months	No deposits to be placed
Green	100 Days	Unlimited, but no more than 4m per Bank/Group of Banks
Red	6 months	Unlimited, but no more than 4m per Bank/Group of Banks
Orange/Blue	12 months	To a maximum of 4m over 364 days, and no more than 4m per Bank/Group of Banks
Purple	24 months	To a maximum of 4m over 364 days, and no more than 4m per Bank/Group of Banks
Other Institutions	Maximum Duration	Individual Limits (£)
Local Authorities*	12 months	6m
Government Debt Management Office	12 months	Unlimited
Money Market Fund **	12 months	2m
Property Funds ***	N/A	2m
Burnley College	15 Years	4m

* the total amount deposited with Local Authorities not to exceed £8m and no more than £6m per Local Authority.

** the total amount deposited in Money Market Funds not to exceed £8m and no more than £2m per MMF.

*** the maximum amount invested in Property Funds not to exceed £2m.