

## APPENDIX 5

### CREDITWORTHINESS POLICY

1. This policy is designed to enable the Council to assess the standing of financial institutions operating in the money markets and their suitability for inclusion on the approved counterparty list.
2. As a starting point to derive its credit criteria, the Council will make use of Fitch, Moody's and Standard and Poor's ratings. All credit ratings are monitored on a regular basis. If a downgrading result in the counterparty no longer meeting the Council's minimum criteria, its further use for new investment will be withdrawn immediately. Any outstanding investments will be allowed to continue to maturity. If an institution is placed on a negative rating watch (i.e., there is a reasonable probability of a rating change in the short-term and the likelihood of that change being negative) and is currently near the floor of the minimum acceptable rating for placing investments with that body its further use will be suspended until the credit rating is confirmed.
3. In addition to the use of Credit Ratings, the Council will monitor movements in Credit Default Swaps (CDS) and other market data on a regular basis. Extreme market movements may result in the suspension or removal of an institution from the Council's lending list.
4. The Council will not use the approach suggested by CIPFA of using the lowest rating from the rating agencies to determine creditworthy counterparties as there is no evidence that whichever agency is currently setting the lowest rating is right.
5. In addition, we will use market data and information including from quality financial press, information on government support for banks and the credit ratings of that government support.
6. Outside of the UK the Sovereign credit rating of individual countries will continue to be taken into account prior to considering the ratings of individual institutions to be included on the counterparty list. Only institutions from countries with a minimum sovereign rating of AA+ or equivalent from the three main rating agencies (Fitch, Moody's or Standard and Poor's) will be considered.
7. The list of countries that currently qualify using this credit criteria are shown in Appendix 4. This list will be amended, if necessary, by the Executive Director of Resources. A limit will be placed on the total amount that can be deposited with institutions in any one country outside the United Kingdom.
8. Whilst the majority of Local Authorities are not independently credit rated, they are considered to offer very high security and liquidity. No local authority or joint authority has ever defaulted on a loan repayment. Under section 13 of the Local

Government Act 2003, any loan which is not paid back on the due date is a charge on future revenues until such time as it is discharged in full.

9. The Council, along with its Tri-Borough colleagues operate a rating methodology for determining the authorities to which it will lend. This is reviewed for robustness on a regular basis.