

Briefing Note

Credit Rating Changes

Background

Continuing regulatory changes in the banking sector are designed to see greater stability and lower risk. In future this will result the Governments support being reduced should an institution fail within its investment arm. This note briefs members on the proposed changes that the Council will have to adopt to its Treasury Management Policy.

Impact

This withdrawal of sovereign support is anticipated to have an effect on ratings applied to institutions. The result of this is that sovereign support will become redundant for the “investment/casino” element of the banking sector. Sovereign support will continue for domestic and commercial banking.

Part of the credit score that underpins a rating is based on underlying sovereign support (i.e the government stepping in when there is a banking crisis). This underlying sovereign support will be withdrawn. Therefore the methodology used by ratings agencies to assess risk will change.

This will result in the key ratings used to monitor counterparties **being short term and long term ratings only**. Viability, financial strength and support ratings currently applied will effectively become redundant.

This change will not reflect deterioration in the credit environment, rather a change of method in response to regulatory changes.

As with current practice, ratings will not be the sole determinant of the quality of an institution. It is also important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate.

Regulatory Adherence

Officers will continue to ensure the Council’s investment policy has regard to the CLG’s Guidance on Local Government Investments and the revised CIPFA Treasury Management in Public Services Code of Practice.

The revision will be approved as part of the Treasury Management and Prudential Indicator report which will be presented to Council in February 2015.

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