Havering
LONDON BOROUGH

AUDIT COMMITTEE 28 SEPTEMBER 2017

Subject Heading:	**TREASURY MANAGEMENT UPDATE QUARTER 1 2017/18**
SLT Lead:	**Debbie Middleton** **Interim Chief Financial Officer**
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Policy context:	**The Code of Practice on Treasury Management 2009 recommends treasury activities to be reported on a scrutiny committee on a quarterly basis.**
Financial summary:	**There are no direct financial implications from the report.**

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[x]
Places making Havering	[x]
Places making Havering	[x]
Connections making Havering	[x]

SUMMARY

The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that authorities report on the performance of the treasury management function to Full Council at least twice per year (mid-year and at year end). This report provides an additional quarterly update to be reviewed by the Audit Committee.

The authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers activity on treasury managed investments and borrowings and the associated monitoring and control of risk.

The key highlights of the Q1 report are as follows:

- Investment portfolio return was 0.68% outperforming its Benchmark by 0.37%, the Budgeted rate of return by 0.08% despite 3 month LIBOR falling steadily over the quarter.
- The Arlingclose 13 London Borough average was 0.67% in Q1 but with a portfolio that had intrinsically more risk than the authority's own investment portfolio.
- No breach of the authority's prudential indicators and treasury indicators.

RECOMMENDATIONS

- To note the treasury management activities for the quarter detailed in the report
- To note the regulatory update on "Ring Fencing" set out in appendix C of this report.
- To note the updates on published FCA rules in relation to the second Markets in Financial Instrument Directive (MIFID II) included in appendix C of this report. Further details on the 'Opting-Up' process are also included in the appendix.

REPORT DETAIL

1. Economic Update and Outlook for 2017/18

1.1 UK Consumer Price Inflation (CPI) index was 2.6% in June (and remained unchanged in July) while Q1 GDP slowed to 0.2% although Q2 GDP could rebound.

1.2 The Bank of England made no change to Bank Rate at its June 2017 meeting. The central case is for Bank Rate to remain flat at 0.25% over the next three years. However, there is a downside risk for rates to be cut to

0.00% in the short and medium term and scope for rates to be increased from 2019 onwards, albeit modestly to 0.50%.

1.3 Gilt yields displayed some volatility with a marked uptick in late June. This was largely due to the expectation of tapering of Quantitative Easing (QE) in the US and Europe, which also had an impact on gilts. Since then however, gilt yields have eased and 50 year PWLB debt was priced at 2.26% at 11 September 2017.

Table 1: Bank rate forecast for the next three years.

	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Official Bank Rate													
Upside risk %	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Case %	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**
Downside risk %	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25

2. Treasury Management Summary

Treasury management activity as at 30th June 2017 is shown in table 2 below.

Table 2: Treasury Management Summary in Quarter 1*

	Balance at 01/04/17 £m	**Raised £m**	**Repaid £m**	**Balance at 30/06/17 £m**	**Weighted Average Rate %**
Loans					
PWLB	203.234	-	-	203.234	3.60
Money Market (LOBO)	7.000	-	-	7.000	3.60
Temporary Borrowing	2.512	10.000	2.362	10.150	0.20
Total Loans	**212.746**	**10.000**	**2.362**	**220.384**	3.44
Investments					
Fixed Deposits	162.000	73.500	66.000	169.500	0.74
Money Market Funds	6.920	117.680	111.870	12.730	0.25
Call Accounts	23.176	12.166	0.950	34.392	0.45
Covered Bonds	8.808	-	-	8.808	0.59
Total investments	**200.904**	**203.346**	**178.820**	**225.435**	**0.68**

* Excludes energy renewable loan

3. Investments

3.1 The authority had outstanding deposits and related investments at 30 June 2017 of £225m. The Arlingclose universe of 13 London Boroughs had an average cash balance of £93.2m. The average days to maturity of the authority's investments was 294 days compared to the 154 days of the 13 London Borough's.

3.2 At 30 June 2017, investments were spread amongst 26 counterparties in comparison with an average of 16 counterparties in the Arlingclose universe of 13 London Boroughs. **Appendix A** shows the breakdown of counterparties and investments for the authority. Diversification of the investment portfolio meant that the exposure to banks with a potential of being affected by Bail-in was 44% in comparison with 65% in the universe.

3.3 Table 3 below shows treasury investment performance for quarter ending 30 June 2017 while Table 4 show the average monthly balances in the quarter.

Table 3: Treasury Investment Performance for Quarter 1 2017/18

Period	Benchmark Return 3 month LIBOR % (Average Quarterly Rate)	Budgeted Rate of Return %	Actual Rate of Return %	Investment Interest Earned to Period End £m
Quarter 1	0.31	0.60	0.68	0.372

3.4 3M LIBOR started the financial year at 0.337% and ended Q1 at 0.307% (It was 0.285% at 11 September) and as a result return on cash investments have continued to reduce.

3.5 As shown in table 3, the authority outperformed its benchmark this quarter by 37bps. This was achieved by locking into longer term deposits to mitigate the impact of falling 3 month LIBOR. However once these investments mature the cash becomes subject to current market rates.

3.6 The authority's 2017/18 budgeted rate of return was set at 0.60% taking into account predicted fall in Bank Rate and economic conditions. At the end of quarter 1, the authority outperformed its budgeted rate of return by 8bps. This compares with the Arlingclose London universe figure of 0.67%but the risk adjusted return for the authority was significantly higher generating 0.21% return per unit of risk on a time weighted basis compared with 0.16% for the universe

3.7 It is expected that the average 3 month LIBOR will drop further in Quarter 2 and as maturing deposits are replaced with new investments at lower rates any excess interest in Quarter 1 may be eroded before the end of the financial year. Officers and their adviser will consider reinvesting in longer duration investments (exceeding 364 days) to obtain higher yield (within existing risk parameters) once the capital review is completed.

Table 4 shows the average monthly balances in Quarter 1 2017/18

Year	Quarter	Month	Date	Days	Average Balance (£m)	Weighted Average Rate (%)
2017/2018	1	April	April average	30	212.6	0.69
		May	May average	31	220.6	0.67
		June	June average	30	223.6	0.68
			2017/2018 Q1 average	91	219.0	0.68
			2017/2018 average	91	**219.0**	**0.68**

4. Current Investment Opportunities

4.1 The Authority is occasionally made aware of long term investment opportunities by other oneSource Authorities, brokers or investment advisers.

4.2 Council on the 13th September approved changes to the Treasury Management Strategy Statement (TMSS) which will now facilitate investment in a wider range of products.

4.3 In 2016/17, oneSource authorities (Newham and Bexley) and Warrington Council have invested in 5 year solar bonds. Subsequent to Cabinet's approval of the recommended changes to the TMSS, this authority now has the option of investing £3m in Solar bonds and the S151 Officer in consultation with the lead member for financial management will decide whether to take up this option.

5. New borrowing

5.1 Affordability and the "cost of carry" remained important influences on the authority's borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing.

5.2 As short-term interest rates have remained, and are likely to remain at least over the forthcoming two years, lower than long-term rates, the authority determined it was more cost effective in the short-term to use internal resources instead, referred to as internal borrowing.

5.3 As a result no long term borrowing was undertaken during the quarter but this will be kept under continuous review as capital investment plans are developed and spending is monitored.

5.5 Market opportunities that may provide borrowing rates at less than equivalent PWLB will be considered, where such borrowing opportunities become available. The S151 Officer will consider the cost of carry before making a decision to borrow in advance of need or forward fixing borrowing rates. Such opportunities could be used by the authority after careful consideration to potentially pay for the authority's prefunding of the LGPS past service cost and deliver General Fund savings. However the S151 Officer will ensure that full cost of the capital programme over the same period and its affordability is costed before making a decision whether to use cash balances to prefund pension fund annual past service cost pension contributions for the next 3 years.

6. Debt Rescheduling

6.1 The possibility of debt rescheduling is regularly discussed with our treasury adviser and is a regular agenda item at the quarterly treasury meeting held between the treasury officers, Arlingclose, the S151 officer and the lead Member for Financial Management. However opportunities have been almost non-existent in the current economic climate.

6.2 The premium charge for early repayment of PWLB debt remains relatively expensive for the loans in the authority's portfolio and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken as a consequence.

7. Compliance with Treasury and Prudential Limits

7.1 It is a statutory duty for the authority to determine and keep under review the affordable borrowing limits*.* The authority's approved 2017/18 Treasury and Prudential Indicators (affordability limits) were included and approved by Full Council as part of the Treasury Management Strategy Statement (TMSS) in February 2017. The changes to the 2017/18 TMSS presented to this Committee in June 2017 were approved by Full Council on the 13th September 2017 meeting. These changes as reported will enable the authority to invest in secured bonds in unrated companies.

7.2 During the quarter, the authority has operated within the treasury limits and Prudential Indicators set out in the authority Treasury Management Strategy Statement and in compliance with the authority's Treasury Management Practices. An update on indicators and limits are reported in appendix 2 of this report.

7.3 There were a number of credit rating changes during the quarter. Moody's Credit Rating Agency affirmed Royal Bank of Scotland's and NatWest's long-term ratings at Baa1. The agency did downgraded the major Canadian banks' long-term ratings on the anticipation that they will face a more challenging operating environment going forward but are expected to remain above the authority's approved ratings for highly rated counterparties.

7.4 Moody's also down-graded the large Australian banks to Aa3 from Aa2 reflecting the agency's view of the rising risks from the banks exposure to the Australian housing market and the elevated proportion of lending to residential property investors. However the ratings of these banks are still expected to remain within criteria of the authority's highly rated counterparties. The authority had £8m exposure with an Australian bank (Australia and New Zealand Banking Group) at the end of Q1, with a rating of AA-.

7.5 Standards and Poor's Credit Rating Agency (S&P) also revised Nordea banks outlook from negative to stable, whilst affirming their long-term rating at AA-.

7.6 The authority's treasury adviser sends out email communications, notifying changes to counterparty ratings when they take place. These are monitored by the Treasury Manager and appropriate action taken after seeking advice from the Head of Pensions and Treasury.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no direct financial implications from this report.

Legal implications and risks:

There are no apparent legal implications or risks from noting this report.

Human Resources implications and risks:

There are no HR implications from this report

Equalities implications and risks:

There are no Equalities implications arising from this report

BACKGROUND PAPERS

1. 2017/18 Treasury Management Strategy
2. 2016/17 Treasury Management Annual report and Proposed Changes to 2017/18 Treasury Management Strategy
3. Arlingclose Investment Benchmarking Q2 2017

Appendix A

Table 1 breakdown of Deposits at 30th June 2017

Institution Type	**30th June 2017 Actual £'m**	**31 March 2017 Actual £'m**
UK Banks		
Goldman Sachs INT"L Bank	17.600	18.000
Lloyds Bank PLC	24.000	24.000
Royal Bank of Scotland	0.100	-
Santander UK PLC	24.005	23.984
UK Building Societies		
Coventry Building Society	-	5.000
Nationwide Building Society	10.000	13.000
Yorkshire Building Society	5.000	5.000
Local Authorities & Other Public Sector		
Birmingham City Council	15.000	-
BlackBurn with Darwen Borough Council	5.000	-
Cheshire East Council	5.000	-
Eastleigh Borough Council	5.000	5.000
Falkirk Council	5.000	
Highland Council Inverness	7.000	12.000
Lancashire County Council	15.000	15.000
London Borough of Islington	5.000	5.000
Mid Suffolk District Council	5.000	
Newcastle Upon Tyne City Council	10.000	5.000
North Lanarkshire Council	5.000	5.000
Northumberland County Council	15.000	15.000
Stockport Borough Council	5.000	-
Non UK Banks		
Australia		
Australia & New Zealand Banking Group	8.000	3.000
Commonwealth Bank of Australia	-	10.000
Canada		
Bank of Montreal	-	4.000
Netherlands		
Cooperative Rabobank	10.000	15.000
Singapore		
Development Bank Singapore	7.000	2.000
Overseas-Chinese Banking Corporation	5.000	9.000
Money Market Funds		
HSBC Global Liquidity Fund Class G MMF	-	6.920
BNP Paribas Insticash Sterling MMF	9.040	-
Insight Investments Liquidity MMF	3.690	-
TOTAL INVESTMENTS	**225.435**	**200.904**

Table 2

Investment Benchmarking

30 June 2017	Havering	13 London & Met Boroughs Average	133 LAs Average
Internal Investments	£225.4m	£87.8m	£63.0m
External Funds	£0.0m	£3.9m	£9.2m
TOTAL INVESTMENTS	**£225.4m**	**£93.2m**	**£72.2m**
Security			
Average Credit Score	3.97	4.32	4.32
Average Credit Rating	AA-	AA-	AA-
Average Credit Score (time-weighted)	3.26	4.22	3.99
Average Credit Rating (time-weighted)	AA	AA-	AA-
Number of Counterparties / Funds	26	16	16
Proportion Exposed to Bail-in	44%	65%	65%
Liquidity			
Proportion Available within 7 days	6%	52%	46%
Proportion Available within 100 days	32%	70%	66%
Average Days to Maturity	294	154	45
Market Risks			
Average Days to Next Rate Reset	290	174	71
External Fund Volatility	0.0%	0.4%	1.9%
Yield			
Internal Investment Return	0.68%	0.51%	0.52%
External Funds - Income Return		1.34%	3.48%
External Funds - Capital Gains/Losses		1.20%	1.37%
External Funds - Total Return		2.54%	4.85%
Total Investments - Income Return	0.68%	0.58%	0.89%
Total Investments - Total Return	**0.68%**	**0.67%**	**1.19%**

Notes to the table above

- Unless otherwise stated, all measures relate to internally managed investments only, i.e. excluding external pooled funds.
- Averages within a portfolio are weighted by size of investment, but averages across authorities are not weighted.
- Credit scores are calculated as AAA = 1, AA+ = 2, etc.
- Volatility is the standard deviation of weekly total returns, annualised.

SOURCE: Arlingclose Quarterly benchmarking

Compliance Report **Appendix B**

All treasury management activities undertaken during quarter 1 complied fully with the CIPFA Code of Practice and the authority's approved Treasury Management Strategy. Compliance with specific treasury limits is demonstrated in tables below.

1.1 Interest Rate Exposures

1.1.1 This indicator is set to control the authority's exposure to interest rate risk on its debt portfolio. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of gross principal borrowed will be:

Table1: Interest rate exposure activity

	2017/18 Limit %	2017/18 Q1 Actual %	2018/19 Limit %	2019/20 Limit %
Upper limit on fixed interest rate exposure	100	92.22	100	100
Upper limit on variable interest rate exposure	25	7.78	30	35

Fixed rate borrowings are those borrowings where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

1.1.2 Having larger amounts of fixed interest rate borrowing gives the authority greater stability with regards to its interest payments and reduces the risk of higher interest costs should interest rates rise. Traditionally local authorities have taken advantage of fixing interest rates long term to reduce interest rate exposure. The table excludes Salix Finance loans as these are held at zero interest hence no interest rate exposure.

1.2 Maturity Structure of Borrowing

1.2.1 This indicator is set to control the authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

Table 2: Loan maturity structure

	Upper %	**Lower %**	**Actual %**
Under 12 months	40	0	7.78
12 months and within 24 months	40	0	0.00
24 months and within 5 years	60	0	0.50
5 years and within 10 years	75	0	9.77
10 years and above	100	25	81.94

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

1.3 Principal Sums Invested for Periods Longer than 364 days

1.3.1 The purpose of this indicator is to control the authority's exposure to the risk of incurring losses by seeking early repayment of its investments.

1.3.2 The limits set in the 2017/18 treasury management strategy in comparison to the quarter one is set below. It is the authority's policy to classify available for sale investments with maturities exceeding one year as short term investments.

Table 3: Investments for periods longer than 364 days

	2017/18 Limit £m	**2017/18 Actual £m**	**2018/19 Limit £m**
Limit on principal invested beyond year end	75	40	75

1.4 Liquidity Treasury Indicator

1.4.1 The authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments overnight and within a rolling three month period without additional borrowing. £12.830m amounts to 5.64% of total investments while £24.5m amounts to 10.87%.

Table 4: Liquidity activity as 30/06/2017

	Target £m	**Actual £m**
Total cash available by the next working day	5.000	12.830
Total cash available within 3 months	30.000	24.500

1.5 Gross Debt and the Capital Financing Requirement (CFR)

1.5.1 In order to ensure that over the medium term debt will only be for a capital purpose, the authority should ensure that debt does not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. This is a key indicator of prudence.

Table 5: Gross debt and the CFR

	31.03.17 Actual £m	31.03.18 Estimate £m	31.03.19 Estimate £m	31.03.20 Estimate £m
Long Term External Debt	210.234	210.234	210.234	256.234
CFR	250.578	280.794	325.527	371.890
Internal Borrowing	40.344	70.56	115.293	115.656

1.5.2 Total debt is expected to remain below the CFR during the year. The actual debt levels are monitored against the Operational Boundary and authorised Limit for External Debt, below.

1.6 Operational Boundary for External Debt

1.6.1 The operational boundary is based on the authority's estimate of most likely, i.e. prudent, but not worst case scenario for external debt.

Table 6: Operational Boundary

Operational Boundary	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**
Borrowing	276.300	310.600	341.400
Other long-term liabilities	2.000	2.000	2.000
Total	**278.300**	**312.600**	**343.400**

1.7 Authorised Limit for External Debt

1.7.1 The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Table 7: Authorised limit for external debt

Authorised Limit	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**
Borrowing	303.900	341.700	375.500
Other long-term liabilities	2.000	2.000	2.000
Total Debt	**305.900**	**343.700**	**377.500**
Long Term Debt	210.200	210.200	210.200
Headroom	**95.700**	**133.500**	**133.500**

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1.0 Ring-fencing

1.1 Ring-fencing which requires the larger UK banks to separate their core retail banking activity from the rest of their business, is expected to be implemented within the next year.

1.2 In May, Arlingclose advice has been for clients to reduce the maximum duration of its deposits at RBS, HSBC and Lloyds bank from 13 months to 6 months as there is some uncertainty surrounding which banking entities the authority will be dealing with once ring-fencing is implemented. The Committee was provided with an update on ring-fencing in the Q4 report, further updates will be provided once the final balance sheet structures of those banks are known.

1.3 There is a potential risk that arises from the ring fencing of larger UK banks. The authority would not be able to lock into the favourable rates that are offered for longer term investments with these banks and therefore the prospects of meeting the investment income target for the current year is at an additional risk.

1.4 Although bail-in legislation has been enacted and is due to be implemented shortly in Canada in the absence of credit default swaps, Arlingclose is of the belief that these bank's balance sheets no longer support their existing credit stance they have therefore advised clients to reduce the duration of new investments in Bank of Montreal, Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Royal Bank of Canada and Toronto Dominion Bank from 12 months to 6 months although investments in these banks collateralised against secured securities within the authority's Treasury Management Strategy can be for longer in so far as they remain with the approved limits.

2.0 MIFID II Client Categorisation of Local Authorities

2.1 The FCA's final rules were published in a policy statement on 3rd July 2017. There were some differences and some clarification compared to the original proposals. The Committee were provided with an update in the Q4 2016/17 report.

2.2 Although the UK has voted to leave the EU, MIFID II will be implemented in the UK because the UK is still subject to EU laws until we leave, secondly the UK government is in favour of strengthening investor protection and UK firms will wish to continue to provide financial services across the EU after we leave therefore need to comply with equivalent regulations.

2.3 With the changes to Client Categorisation rules, all Local Authorities will be reclassified as ‘retail’ clients by default, with the option of being treated as ‘elective professional’, provided they can meet a set of qualitative and quantitative criteria (detailed in points 2.5 &2.6)

2.4 A decision to maintain “Retail” status is expected to limit the investment options available, compared to “Professional” status. It also is important to note that the option to opt-up is not a one off exercise. It will need to be undertaken with each and every counterparty / fund manager that a client may wish to transact. Without “Professional” status the authority will be unable to deliver its Treasury Management Strategy and the investment income assumed in the budget strategy.

2.5 Qualitative Test Criteria

(a) This test is based around the financial firm being confident that their client can demonstrate their experience and knowledge, to a level at which they have sufficient assurance that the client is capable of making investment decisions and has an understanding of the risks involved.
(b) The qualitative test criteria are provided as guidance and each investment counter-party would then set its particular criteria. Rather than a simple pro-forma that could be used to meet each individual request, there are likely to be differences in each approach from each individual financial institution and fund manager. The differences could simply depend on the nature of the potential investment a client may make with the entity, or there could be other factors that also play a role.
(c) The onus will be on each financial services firm to document and evidence that each client satisfies the above criteria, if they wish to allow an authority to re-categorise as professional. The information that will be needed as part of this process will have to be supplied by the local authority.

2.6 Quantitative Test Criteria

The quantitative test criteria that must be satisfied are detailed below.

(a) the size of the client’s financial instrument portfolio, defined as including cash deposits and financial instruments, exceeds £10,000,000
(b) the client has carried out transactions, in significant size, on the relevant market at an average frequency of 10 per quarter over the previous four quarters
(c) the client works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of the transactions or services envisaged

2.7 In the July briefing from the authority's treasury adviser, it was noted that none of the main broker and adviser firms serving Local Authorities are currently authorised to serve retail clients, including Arlingclose.

2.8 There is a portal that has been provided by CIPFA, the CIPFA/PS Link MiFID II portal, to manage the opting up process. The authority has been registered on this portal and intends to complete the necessary stages towards the opting up process through this portal.

Glossary of Terms **Appendix D**

A bond is a debt instrument in which an investor lends money for a specified period of time at a fixed rate of interest. The issuing entity could be corporate, financial or government.

A floating rate note (FRN) is a money market instrument with a Floating/variable rate of interest, which re-fixes over a reference rate, for example 3 month LIBOR.

Bail in is rescuing a financial institution on the brink of failure by making its creditors and depositors take a loss on their holdings. A **bail**-in is the opposite of a **bail**-out, which involves the rescue of a financial institution by external parties, typically governments using taxpayer's money.

Basis point (bp) One hundredth of 1% e.g. 0.01%

Certificates of deposit (CDs) are a negotiable form of fixed deposit, ranked pari passu with fixed deposits. The difference is that you are not obligated to hold the CD to maturity, you can realise the cash by selling in the secondary market.

Coupon is the total amount of interest a security will pay. The coupon period depends on the security. A CD will often pay interest at maturity, while a bond may pay semi annually or annually and an FRN will most likely pay every 3 months.

Covered bond Covered bonds are conventional bonds (fixed or floating) issued by financial institutions, that are backed by a separate group of loans, usually prime residential mortgages. This lowers the creditor's exposure to default risk, enhancing the credit. This is why the issue is usually rated AAA, higher than the rating given to the issuer reduces exposure to bail-in risk.

Credit rating A measure of the credit worthiness of a borrower. A credit rating can be assigned to country, organisation or specific debt issue/ financial obligation. There are a number of credit ratings agencies but the main 3 are Standard & Poor's, Fitch or Moody's.

MIFID is the Markets in Financial Instruments Directive. A European Union Directive.

Principal is the total amount being borrowed or lent.

Spread is the difference between the buy and sell price of a security. It can also be the gap, usually in basis points, between the yield of a security and the benchmark security.

Treasury bills (T-bills) are UK government rated, short-dated form of Government debt, issued by the Debt Management Office (DMO) via a weekly tender. T-bills are normally issued for one, three or six month duration.