



Government of **Western Australia**  
Department of **Treasury**

# Public Bank Account (PBA) Credit

November 2018



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# Public Bank Account (PBA) Credit Policy

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## 1. Overview

This Policy applies to the investment of moneys standing to the credit of the Public Bank Account (PBA), including the separate pool within the PBA designated as the Future Fund. In this Policy a reference to the PBA includes a reference to the Future Fund unless the Future Fund is specifically excluded within a particular Policy provision.

## 2. Purpose

This PBA Credit Policy (Credit Policy) manages the credit risk associated with the investments made in respect of the PBA and sets the parameters under which this is managed.

## 3. Legislative and Policy Framework

Investments governed by this Policy must comply with the following legislative and policy framework:

- *Financial Management Act 2006*
- Financial Management Regulations 2007
- *Western Australian Future Fund Act 2012*
- Public Bank Account Investment Policy

## 4. Eligible Investment Counterparties

To be considered for a limit, a counterparty must comply with the legislative requirements as set out in Section 3 and be rated by at least one of Standard & Poor's Financial Services LLC (S&P) or Moody's Investors Service (Moody's).

## 5. Investment Limits

This Policy establishes the Categories within which investment limits are set. A maximum dollar Exposure Limit and maximum term to maturity (Term Limit) is approved for the nominated Exposure Client within each Category and is set out in Schedule A. Counterparties will be assigned to Categories on the basis of the lower of the S&P and Moody's long term ratings.

## **5.1. Exposure Limit**

Exposures shall be measured at current market values and shall apply from the settlement date.

Exposures guaranteed by the Commonwealth Government shall be applied to the Commonwealth Government limit and not the issuing counterparty's limit.

## **5.2. Term Limit**

The Term Limit as set out in Schedule A is the maximum term to maturity allowed for PBA investments to a counterparty within the applicable Category.

## **6. Operational Objectives**

The Deputy Under Treasurer, Treasury has the authority to:

1. Approve separate Exposure Limits for investments made for the PBA (excluding the Future Fund) and the Future Fund such that the total combined Exposure Limits do not exceed the exposure limit for the PBA (including the Future Fund) for the same category as set out in Schedule A of this Policy.
2. Approve the Term Limits to apply to the PBA (excluding the Future Fund) and the Future Fund such that the Term Limit does not exceed the maximum Term Limit for the PBA (including the Future Fund) as set out in Schedule A of this Policy.
3. Approve any action required in relation to a breach of this Credit Policy.
4. Approve any action required to manage the credit exposures of the portfolio.
5. Approve such other limits as deemed necessary to ensure the PBA's investments are appropriately managed.
6. Agree all operational management procedures.

## **7. Review**

A review of this Policy will be conducted by the Borrowings and Investment Sub-Committee (BISC) in June each year and a report presented to the Deputy Under Treasurer, through the Public Sector Financial Management Committee (PSFMC), recommending changes, if required, for presentation to and approval by the Treasurer.

To achieve a return on moneys invested for the Future Fund above the WATC's marginal cost of funds calculated over rolling five-year periods while remaining within the risk objective of the Fund (i.e. that the Fund does not have a negative return (measured on a historical yield basis) in any five-year rolling period).

## Approved Investment Credit Limits

Limit Category	Credit Rating	Exposure Client	PBA including Future Fund	
			Exposure Limit	Term Limit
A		Western Australia (including WATC)	No Limit	12 Years
		Commonwealth Government	No Limit	12 Years
B	AA/Aa2 or better	Commonwealth Government Guaranteed Statutory Authorities	\$2,000 M	12 Years
	AA/Aa2 or better	State or Territory Governments	\$2,000 M	12 Years
	AA/Aa2 or better	State or Territory Government Guaranteed Statutory Authorities	\$2,000 M	12 Years
	AAA/Aaa	Major Australian Banks <sup>1</sup>	\$1,600 M	7 Years
C	AA-/Aa3	State or Territory Governments	\$1,625 M	12 Years
	AA-/Aa3	State or Territory Government Guaranteed Statutory Authorities	\$1,625 M	12 Years
	Double-A Category	Major Australian Banks <sup>1</sup>	\$1,300 M	7 Years
	AAA/AAa	Banks or Authorised Deposit Taking Institutions	\$1,300 M	5 Years
	AAA/AAa	Entities Guaranteed by Foreign Sovereigns	\$1,300 M	12 Years
	AAA/AAa	Supranationals	\$1,300 M	12 Years
	AAA/AAa	Corporations	\$1,300 M	5 Years
D	Single-A Category	State or Territory Governments	\$1,200 M	12 Years
	Single-A Category	State or Territory Government Guaranteed Statutory Authorities	\$1,200 M	12 Years
	A+/A1	Major Australian Banks <sup>1</sup>	\$1,200 M	7 Years
	Double-A Category	Banks or Authorised Deposit Taking Institutions	\$ 650 M	5 Years
	Double-A Category	Entities Guaranteed by Foreign Sovereigns	\$ 650 M	5 Years
	Double-A Category	Supranationals	\$ 650 M	5 Years
	Double-A Category	Corporations	\$ 650 M	5 Years
E	A+/A1	Banks or Authorised Deposit Taking Institutions	\$ 400 M	3 Years
	A+/A1	Entities Guaranteed by Foreign Sovereigns	\$ 400 M	3 Years
	A+/A1	Supranationals	\$ 400 M	3 Years
	A+/A1	Corporations	\$ 400M	3 Years
F	A-/A3 or better	Banks or Authorised Deposit Taking Institutions	\$ 350 M	1 Year
G	BBB-/Baa3 or better	Banks or Authorised Deposit Taking Institutions	\$ 50 M	11am Call

<sup>1</sup> ANZ, Commonwealth Bank, National Australia Bank, Westpac

## Pre-settlement term limit

Excluding counterparties in Category G, a pre-settlement term limit of up to an additional 4 calendar weeks is allowed.