ANNEX A

I have included some of the information you requested below and have provided a list of meetings, dates and subjects. Unfortunately I have only been able to include the name of the Senior Civil Servant and Minister who attended the meetings and am not able to provide the name of civil servants below Senior Civil Service level.

1. A record of meetings between credit ratings agencies and Scottish government officials since 2015. I'd like to know the date of the meeting; which Scottish government official(s) attended; the name of the credit agency in question and of the representatives at the meeting; and any minutes or other documents regarding the meeting that is fit for disclosure;

2015	**Meeting**	**Subject**	**Attendees**
22-Jul	Fitch	Process of credit ratings	DG Finance, Alyson Stafford and Sean Neill, Deputy Director *[Exempt under Section 38(1)(b) (personal data of a third party)]*
2016	**Meeting**	**Subject**	
25-Jan	Moody's	Process of credit ratings	DG Finance, Alyson Stafford, Director of Financial Strategy, Alistair Brown David Rubinoff, Kathrin Muehlbronner, Roshana Arasaratnam, Marika Makela

----

EXTRACTS FROM BRIEFING NOTE: MOODY'S INVESTORS SERVICE MEETING, 25 JANUARY 2016

1. Attendees

The attendees are:

- David Rubinoff, Managing Director - Sub Sovereigns
- Kathrin Muehlbronner, Senior Vice President, Sovereign
- Roshana Arasaratnam, Vice President, Senior Credit Officer, Sub Sovereign
- Marika Makela¸ Vice President, Business Development

Brief biographies/profiles (where available) are attached at Annex 1.

2. Company structure/brief history

Founded by John Moody in 1909 to produce manuals of statistics related to stocks and bonds and bond ratings. The Corporation, which reported revenue of $3.3 billion in 2014, employs approximately 10,200 people worldwide and maintains a presence in 35 countries. In May 2015, *Moody's Investors*

Service launched *Moody's Public Sector Europe* (MPSE), a new credit rating agency and the first of its kind dedicated to the growing European public sector debt market.

3. General ratings methodology for sub-sovereigns (all agencies)

A rating is an independent opinion on the ability and the willingness of a borrower to meet its financial obligations of interest and principal, in full and in a timely manner. A rating assesses the probability that the borrower will default on its bonds before the maturity date.

The three major rating agencies (Moody's, Standard & Poor, and Fitch) all share the general approach of deriving the final score for rating from a matrix of quantitative and qualitative factors covering economic, fiscal, financial and institutional factors.

Broadly speaking, the variables that go into the ratings analysis of the major ratings agencies may be divided into five categories:

1. The subnational economic conditions
2. The fiscal performance of the subnational government
3. The financial and debt position of the subnational government
4. The management quality and institutional strengths of subnational institutions
5. The influence of sovereign factors, intergovernmental relationships and fiscal arrangements.

A two-step credit ratings approach is generally taken when rating sub-sovereigns:

1. Assignment of a standalone rating of the sub-sovereign; followed by
2. Overlay of the rating agencies' view as to the likelihood to support stemming from the sovereign of the financial debt liabilities of the sub-sovereign, even in the absence of an explicit government guarantee.

4. Moody's specific approach to rating sub-sovereigns

- Moody's rate both private corporations and public sector organisations across the world including many 'sub-sovereign' entities in the public sector such as local and regional governments. An up-to-date list of Moody's current ratings for a selection of UK (and some non-UK) sub-sovereigns is attached at Annex 2.
- The Annex shows that, in the <u>UK sub-sovereign sector</u>, the outlook for most organisations is currently 'stable' and mostly in the 'A' range. Local authorities are generally rated slightly above housing associations & other non-government bodies.
- The selected range of <u>non-UK ratings</u> in Annex 2 generally reflects overseas sub-sovereign provinces' long track record and strong credit worthiness with investors.
- Moody's use different methodologies for different types of entity but the broad methodology to arrive at a rating for sub-sovereign governments is outlined in **Annex 3.** This methodology is applied to all ratings and the attendees will be very familiar with it and may have even shaped it in its current form.
- The sovereign (UK Government) rating will generally "cap" the rating of a local or regional government. Moody's currently rates the UK as "Aa1 " with a stable outlook. This rating has remained the same since 2013 when the agency (controversially) downgraded the UK from "Aaa." A summary of the UK rating for June 2015 is attached in **Annex 4**. The current rating has throughout 2015 and into 2016 been featuring the potential effects of the UK's exit from the European Union. However, in shaded text, there are also discussions about how **fiscal decentralisation and in particular further devolutionary powers for Scotland** are shaping Moody's thinking. The conclusion is that the additional risks and resulting credit profile for Scotland will depend on the nature of the framework and the ability of the sovereign to still exert influence and control on the sub-sovereign.

5. Types of ratings products supplied by credit ratings agencies like Moody's

- <u>Initial rating</u> – borrowers can contract with the ratings agency to obtain an initial rating which would be prepared on a confidential basis. It is then up to the borrower what happens next, i.e. publish the rating, stop the process, maintain private rating on a confidential basis.

- Monitored ratings – the borrower can contract with an agency for a public or private rating, to be maintained on an annual basis.

6. Scottish involvement with other ratings agencies

- *[Exempt under section 30(b)(ii) (free and frank provision of advice)]*
- *[Exempt under section 33(2)(b) (financial interests of a UK Administration)]*
- *[Exempt under section 30(b)(ii) (free and frank provision of advice)]*

7. Ratings process

- We understand that it would take 6-8 weeks for an agency to prepare and issue a rating – this excludes the preparation time for a borrower to gather data and relevant documentation and potentially procure external advisers.
- The whole process would require a much longer period (up to a year we have been told) to accommodate procurement requirements etc.
- Agencies tend to place significant weighting on interviews with senior officials and Ministers, including a presentation or management meeting, as well as reviewing quantitative evidence of past financial and economic performance and future plans.

8. Costs of obtaining a rating

- *[Exempt under section 30(c) (otherwise substantially prejudice to the effective conduct of public affairs)]*
- *[Exempt under section 30(c) (otherwise substantially prejudice to the effective conduct of public affairs)]*

9. Potential questions/discussion topics that may be raised by Moodys

a) What are the Scottish Government borrowing plans?

- Announced in the 2015-16 Draft Budget that we would be seeking to borrow up to £306 million in 2015-16 (10% of our **capital budget** – the maximum permitted by HMT) in order to maximise our infrastructure investment
- Announced in 2016-17 Draft Budget 2016-17 capital borrowing limit of £316 million.
- A more strategic view on both the quantum and sources of capital borrowing will be undertaken following the outcome of the on-going fiscal framework negotiations. This will be underpinned by value for money considerations.

b) *[Exempt under section 33(2)(b) (financial interests of a UK Administration)]*

c) What is the latest position regarding the fiscal framework?

- Still in discussion. Both Governments committed not to disclose progress until the process is complete around mid-February
- We note that the June 2015 UK rating does make reference to the impact of further fiscal devolution on the UK credit rating. Is that still your assessment?

10. Potential questions/discussion topics for Scottish Government to raise

a) What are the big issues facing the UK's sovereign rating and outlook?

- Would suggest these might be current turbulent events in the world economy and UK potential exit from the European Union but are there more (referring also to Moody's UK sovereign rating in Annex 5)?

b) How does the institutional framework matter in the ratings process?

- Will continued uncertainty over Scotland's new fiscal framework impact upon a sub-sovereign ratings outcome?

- Are there any particular safeguards / features of a framework which would be of particular importance/interest to ratings agencies? For example, in terms of block grant adjustments; tax varying powers; flexibilities to manage risks.

c) What are the specific requirements of Moody's in terms of documentation, data etc?

- What are the specific data requirements / expectations for a sub-sovereign / regional government?
- It feels like we might be further ahead than other sub-sovereigns, e.g. publication of GERS and work towards preparing a set of National Accounts for Scotland, but would Moody's agree with that assessment?
- How would the assessment of the economy be tailored to the basket of tax powers devolved to Scotland? Would it take the devolved tax base into consideration?

d) Is our past fiscal performance significant?

- Scotland has a strong track record of delivering a balanced budget, including responding to fiscal constraint. How will this bring to bear on the ratings process?
- The devolution of tax powers is in relative infancy, so we have a less established track record in forecasting, collecting and managing national tax revenues. How, if at all, could this impact upon the ratings process?

e) Does our debt and liquidity matter in the rating process?

- Scotland already operates within a self-imposed fiscal rule limiting revenue funding of long-term infrastructure investment to 5% of total annual resource.
- What is your view on this self-imposed constraint? Is it significant in the ratings process?

f) Management policies and practices

- How would the absence of powers to create and manage cash reserves impact upon an assessment of Scotland's credit rating?
- Are you aware of our forecasts for the two devolved taxes in the draft Budget 2016-17? Does the provision of 5-year forecasts bring anything extra to your decisions on ratings? Does Scottish Fiscal Commission endorsement bring any further weight to these forecasts?

Annex 1: Attendees' summary biographies

1. David Rubinoff, Managing Director - Sub Sovereigns

Managing Director: Moody's Investors Service

February 2010 – Present (6 years)

Management of a global franchise in an international financial services company.

Manage all aspects of a credit analysis group comprising 45 analysts in 15 locations covering 45 countries.

Provide opinions on credit for the global regional & local government and related public sector.

Senior Vice President: Moody's Investors Service

January 2002 – February 2010 (8 years 2 months)

Lead analyst and team leader

Responsible for the Americas and Asia

Covered regional and local government sector

Finance Counsellor: Finance Canada

September 1999 – January 2002 (2 years 5 months)

Represented Government of Canada in the New York investment community

Undertook economic and financial market analysis

Chief, Environment and Resource Policy: Finance Canada

November 1997 – September 1999 (1 year 11 months)

2. Kathrin Muehlbronner, Senior Vice President, Sovereign

Senior Vice President- Sovereign Risk Group: Moody's Investors Service

April 2010 – Present (5 years 10 months) London, United Kingdom

Director: Sovereign Analytics Ltd

October 2008 – June 2009 (9 months)

Director, Debt Capital Markets: Merrill Lynch International

December 1999 – July 2008 (8 years 8 months) London, United Kingdom

Associate Director: Deutsche Bank

August 1993 – October 1999 (6 years 3 months)

3. Roshana Arasaratnam, Vice President, Senior Credit Officer, Sub Sovereign

- Roshana has combined practical experience of public finance within local and central government, with strategy development and economics. At Moody's she is responsible for the UK, Nordic and Netherlands portfolio - including Housing Associations, Regional and Local Government, and specialised lenders.

- Previously, at Hackney Council, she has been responsible for budget monitoring, budget setting and procurement across the Chief Executive's, Legal, HR and Regulatory Services, Finance and Resources and Children and Young People.

- She has also worked at Treasury Solicitor's Department, Westminster Council and was formerly Head of Quality, Performance and Research at London Borough of Lambeth. Her core financial experience was at PriceWaterhouseCoopers, where her work covered both financial audit and management, and policy, research and economics.

- Her clients have included Department for Work and Pensions, HM Treasury, Cabinet Office, Office of National Statistics, London Borough of Bexley, Transport for London, National Audit Office, The Housing Finance Corporation and Notting Hill Housing Authority.

- Internationally, she has worked at OECD as an economics research fellow on gender equality and a strategic planning consultant to an NGO in Sri Lanka. She has also worked as an economist at HM Treasury working on welfare to work issues.

4. Marika Makela¸ Vice President, Business Development

- No profile information available.

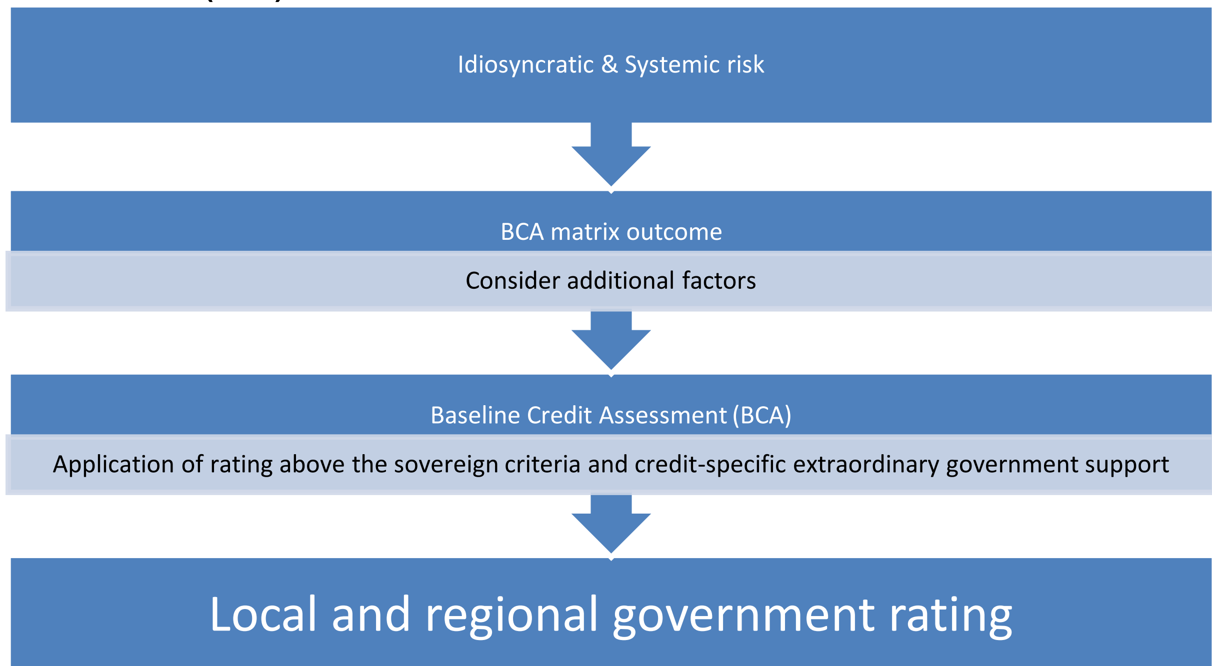
Annex 2: Moody's sub-sovereign ratings list: 12 January 2016

UK	Outlook	Rating	UK	Outlook	Rating
Affinity Sutton Capital Markets plc	STA	Aa3	Guinness Northern Counties Limited	NOO	A2
Affinity Sutton Group Ltd STA	STA	Aa3	Hanover Housing Association	STA	A1
AmicusHorizon Finance Plc	STA	A2	Hastoe Capital Plc	STA	A2
AmicusHorizon Limited	STA	A2	Hastoe Housing Association	STA	A2
B3 Living Limited	STA	A3	Herefordshire Housing Limited	STA	A2
Bromford Housing Group	STA	A3	Herefordshire Capital Plc	STA	A2
Chelmer Housing Partnership Ltd	NEG	A2	Keele University	STA	Aa2
Circle	STA	A2	L&Q Group	STA	A1
Circle Anglia Social Housing Plc	STA	A2	Lancashire County Council	STA	Aa2
Circle Anglia Social Housing 2 Plc	STA	A2	Libra (Longhurst Group) Treasury Plc	STA	A2
Cornwall Council	STA	Aa1	London & Quadrant Housing Trust	STA	A1
Cottsway Housing Association Limited	STA	A2	Longhurst Group Ltd	STA	A2
De Montfort University	STA	Aa2	Midland Heart	STA	A1
Devon and Cornwall Housing Association	POS	A1	Midland Heart Capital Plc	STA	A1
East Finance Plc	STA	A3	Moat Homes	STA	A1
East Thames Group Limited	STA	A3	Moat Homes Finance Plc	STA	A1
Family Mosaic	POS	A1	Myriad Capital Plc.	NEG	A2
Flagship Housing Group Limited	STA	A1	New Charter Housing Trust Ltd	STA	A2
Genesis Housing Association	STA	A2	Newlon Housing Trust	STA	A2
GenFinance II Plc	STA	A2	Notting Hill Housing Group	STA	A2
Grand Union Group	STA	A2	Notting Hill Housing Trust	STA	A2
Grand Union Group Funding Plc	STA	A2	Orbit Group Limited	STA	A1
Great Places Housing Group	STA	A2	Orbit Capital Plc	STA	A3
Guildford Borough Council	STA	Aa1	Peabody Capital No 2 Plc	STA	A2

Selected other sub-sovereigns: non-UK	Outlook	Rating	Selected other sub-sovereigns: non-UK	Outlook	Rating
Australia: Queensland Treasury Corporation	NEG	Aa1	Canada: Province of Alberta	STA	Aaa
Belgium: Community of Flanders	STA	Aa2	Canada: Province of British Columbia	STA	Aaa
Belgium: Walloon Region	STA	A1	Spain: Basque Country	POS	Baa1
Germany: Free State of Bavaria	STA	Aaa	Spain: Catalunya	STA	Ba2
Germany: Land of Saxony-Anhalt	STA	Aa1	Sweden: City of Gothenburg	STA	Aaa

Outlook key: STA = Stable, Pos = Positive, Neg = Negative

Annex 3: Moody's ratings approach and methodology for Regional and Local Governments (RLG)



- Systemic risk: Operating environment and risk embodied in the sovereign rating.

- Idiosyncratic risk: each factor is scored between 1 (strongest) and 9 (weakest)
  - Economic fundamentals (20%): economic strength (regional GDP per capita % of national and volatility/ industrial concentration
  - Institutional framework (20%): predictability, stability and responsiveness of legislative background and fiscal flexibility
  - Financial performance and debt profile (30%): operating margin, interest burden, liquidity, debt levels and structure
  - Governance and management (30%): risk controls and financial management, investment and debt management and quality of information

- Additional factors: possible for the rating to go up or down.
  Examples such as:
  - Narrowness of economy
  - Strained market access
  - Political risk/ interference
  - Event risk
  - Likelihood of (UK in the case of Scotland) government support

Annex 4: Extract from Moody's UK Sovereign Rating (June 2015)

The UK's Aa1 rating with stable outlook is supported by its large, competitive and well-diversified economy which benefits in particular from a flexible labour market. Economic growth has been strong at 2.8% last year and we expect only slightly lower growth rates over the coming years, mainly driven by domestic demand. Other credit strengths of the UK include robust and transparent institutions and a strong commitment to fiscal consolidation, which has resulted in the near-halving of the budget deficit over the past few years to 5.7% of GDP in 2014. We expect the budget deficit to continue to decline in the coming years, which in turn should also lead to a declining public debt ratio from 2017 onwards.

At the same time, the UK's high public debt level remains a key credit weakness. Its debt burden, which stands at around 90% of GDP is still rising and is among the highest in advanced and highly-rated economies. Also, household indebtedness remains high, and households and banks would be vulnerable to a severe house price correction or rapid increases in interest rates. At the same time, improvements in the robustness and regulation of the banking sector indicate a low probability of these risks crystallizing on the sovereign's balance sheet.

Upward pressure on the UK's sovereign rating could result from a more rapid economic growth trend and a faster debt-to-GDP reduction than we currently anticipate. Conversely, downward pressure on the rating could arise if fiscal consolidation were to stall, causing the government's debt burden to remain at or close to the current elevated levels. The rating would also come under downward pressure if the referendum on the UK's membership in the EU resulted in a withdrawal, and the government was not able to negotiate a reasonably strong alternative trade arrangement.

This Credit Analysis elaborates on the UK's credit profile in terms of Economic Strength, Institutional Strength, Fiscal Strength and Susceptibility to Event Risk, which are the four main analytic factors in Moody's Sovereign Bond Rating Methodology. The report also contains a discussion of the risks to the economic growth outlook emanating from the EU referendum as well as potential risks to the public finances linked to the transfer of fiscal powers to sub-national governments (page 2).

Special Topic: Event risks arising from referendum on EU membership and fiscal decentralization

We see two idiosyncratic event risks for the UK government's bond rating: (1) The now confirmed referendum on the country's continued membership in the European Union (EU), which we consider a 'political risk' according to our sovereign methodology, i.e., the risk that political decisions may undermine economic strength and the strength of the government's balance sheet; (2) The path towards greater fiscal decentralization, which now seems likely to advance faster and be more comprehensive than expected earlier, could have more direct negative implications for government financial strength.

The EU referendum may take place earlier than initially expected, with the government now targeting a referendum date possibly in the course of 2016 rather than 2017. While an earlier date would reduce the period of uncertainty, it also reduces the time available for negotiations with the EU on the reforms and repatriation of powers to member states sought by the UK government. In our view, a shorter time frame increases the risk that the UK government will not manage to secure the changes that it is seeking. It may also make it less likely that the government will support remaining in the EU. EU governments have indicated that their preference is for the UK to remain within the EU. However, they have also indicated that there are limits as to what they are willing to accommodate.

The referendum outcome remains uncertain: Recent opinion polls indicate that a majority of UK voters would be in favour of remaining in a reformed EU, but that the outcome of a referendum would be much closer if the government was not able to secure material concessions. At the same time, we expect that there will be a vigorous debate about the advantages and disadvantages of EU membership. In particular, we would expect the business community to articulate the benefits of remaining part of the EU as the majority of business associations and representatives prefer the UK to stay within the EU.

We believe that a withdrawal from the EU would be negative for the UK's economic growth prospects given the importance of the country's trade links with the EU and other advantages of being part of one of the largest economic blocks in the world.1 The EU is the UK's largest export market with around 50% of UK goods exports and 35% of services exports destined for EU countries. This equates to 12-13% of the UK's GDP. A withdrawal from the EU would worsen the UK's trade position and, through that, medium-term growth. The domestic impact would include a hollowing-out of export sector employment and capital, at least while resources were redeployed to more competitive sectors. While the UK is a flexible economy, such a realignment of resources would likely be painful, at least in the short run. Investment, including by foreign-owned companies, would probably also be negatively affected. The UK is the largest recipient in the EU of foreign direct investment (FDI), attracting 19% of all flows into the EU (2013). Future inflows might be lower if UK growth prospects were lower and if the UK no longer offered as valuable an "entry point" into the large EU market as before. This would be a particular risk for the financial sector, given the loss of EU passporting rights in case of withdrawal. For EU-based investors, who accounted for 50% of the FDI stock in 2012, being in the UK might also become less attractive unless the purpose of the investment is the UK domestic market.

The impact on the UK's government bond rating would depend on the strength of the alternative trade arrangements that the UK might be able to negotiate to replicate the trade freedoms that EU membership offers. If the UK were to exit the EU, we would expect that the UK would negotiate some form of settlement to replicate current trade freedoms, albeit imperfectly. In this respect, an arrangement along the lines of Switzerland's bilateral free trade arrangements might be a more relevant template to follow than membership of the European Economic Area (EEA). However, whichever alternative arrangement the UK might be able to secure, none would easily mitigate the loss of EU membership. Failure to secure any such settlement could have a more pronounced adverse impact on investment and growth, potentially eroding the country's existing credit strengths. The UK's sovereign rating would likely face downward pressure in such a scenario.

Fiscal decentralization is a more long-term issue for the UK's rating, in our view. The UK is one of the most centralized countries among advanced economies and the devolution of fiscal powers to sub-national entities is a recent phenomenon following the referendum on Scotland's independence in autumn 2014. The pace of fiscal devolution – particularly to Scotland but also other regions and large cities – is being accelerated further, as promised by the government and reflecting the increased representation of the Scottish National Party (SNP) in parliament. However, the funding settlement which will accompany this decentralisation process still needs to be elaborated. This includes clarity on the extent of tax-raising powers, if devolution will be accompanied by changes in how funding is allocated across the UK, and what ties and oversight will be attached to this funding.

Decentralisation of fiscal powers to lower levels of government does not have credit implications for a sovereign in itself. However, we believe that either incentives need to be aligned among the different levels of government or the central government needs to maintain strong control and monitoring ability, in order to avoid sub-national governments running high budget deficits and incurring large debt burdens. In our view, decentralization of fiscal powers among different levels of government has worked well in countries with a strong track record of sound public finances and a common understanding of the benefits of low budget deficits and debt such as Switzerland and the Scandinavian countries. It is unclear at this point in time whether such policy cohesion would exist in the UK, but we expect that the central government will likely be able to maintain a reasonably strong level of control and oversight. While our baseline expectation is that the planned devolution will not materially impact the UK's overall fiscal strength, the extent of any risk from a move towards greater federalism to the UK government's own balance sheet will only become apparent over time

End of briefing

----

2. Any meetings between Scottish government officials and external parties (such as investors or banks) on the topic of the potential issuance of Scottish government issued bonds. I'd like the same details as above for each meeting (date, details on attendants, relevant minutes/documents);

2015	**Meeting**	**Subject**	**Attendees**
18-Feb	Scotland Office	UK legislation allowing bond issuance by Scottish Government.	*[Exempt under Section 38(1)(b) (personal data of a third party)]*
27-May	Scottish Futures Trust	SFT role in bond issuance	*[Exempt under Section 38(1)(b) (personal data of a third party)]*
30-Jun	Lloyds Banking Group	General borrowing, bond issuance and credit rating advice	*[Exempt under Section 38(1)(b) (personal data of a third party)]*
27-Jul	London Stock Exchange	Retail bond issuance	Deputy Director, Sean Neill DG Finance, Alyson Stafford (attended for approx. 10 mins as welcome) *[Exempt under Section 38(1)(b) (personal data of a third party)]*
28-Jul	Linklaters (Legal)	Retail bonds	Information no longer held
18-Aug	Scottish Futures Trust	SFT role in bond issuance	Information no longer held
2016	**Meeting**	**Subject**	
30-Mar	HSBC	General borrowing, bond issuance and credit rating advice	*[Exempt under Section 38(1)(b) (personal data of a third party)]*
26-Jul	London Stock Exchange	Retail bond issuance	Cabinet Secretary for Finance, Derek Mackay *[Exempt under Section 38(1)(b) (personal data of a third party)]*
2017	**Meeting**	**Subject**	
19-Jan	Aberdeen City Council	Issue of first Aberdeen City Council Bond	Director of Financial Management, Alistair Brown Deputy Director, Aidan Grisewood *[Exempt under Section 38(1)(b) (personal data of a third party)]*

EXTRACTS FROM BRIEFING - MEETING: *[Exempt under section 38(1)(b) (personal data of a third party)],* **LONDON SX GROUP: RETAIL BONDS**

Scottish Government capital borrowing powers (Fiscal Framework Agreement)

- The Scottish Government's existing capital borrowing limits (set out in the Scotland Act 2012) are being increased with effect from 1 April 2017
- The Governments have agreed that the statutory limit on borrowing for capital expenditure will be increased to £3bn. The annual limit on the amount of borrowing for capital expenditure will also be increased. It will now be set at 15% of the overall borrowing cap, which is equivalent to £450 million per annum
- The Scottish Government will notify the Treasury monthly on its planned capital borrowing, its outstanding debt and repayment profile, but will be able to borrow within the agreed limits as it deems appropriate.
- These capital borrowing limits are in addition to the Scottish Government's capital block grant, which will continue to be calculated using Barnett formula.
- Under previous Scotland Act 2012 powers, the Scottish Government may borrow through the UK Government from the National Loans Fund, by way of a commercial loan (directly from a bank or other lender), <u>or through the issue of bonds</u>. Borrowing will be in pounds Sterling.

Retail bonds: definition, characteristics, pros and cons

- A retail bond is an IOU issued by a corporation (or Government) to an investor. An investor lends the corporation money, and in return the company (usually) pays the debtor interest
- Some positive characteristics of retail bonds: can issue in small issue denominations (e.g. £25m); can easily reach the small investor (as opposed to just large institutions); bondholders can put the bonds in SIPP and ISA wrappers and can therefore be tax efficient; can easily be bought and sold i.e. they are relatively liquid; denominations suited to small investor (£100-£10,000);
- Some restrictive characteristics; reputational damage if issue doesn't go well; not fully tested outside of a low interest rate era (launched 2010); relies on credit rating (SG doesn't have this and UK rating recently downgraded due to Brexit) or an investor compensation scheme; incurs transaction costs e.g. SX listing, advisers etc; not suitable for larger investors (corporations etc); for the small investor, not covered by Financial Services Compensation Scheme (as are bank deposits) thus not suitable for inexperienced investors unaware of potential capital losses

What work has Scottish Government done on issuing bonds?

- Officials have researched borrowing options including issuing bonds and have met periodically with organisations wishing to advise us and have made contacts in the *[exempt under section 30(c) otherwise substantially prejudice the effective conduct of public affairs)]* , so that we would be ready to provide further advice on options if Ministers so wish.

Suggested discussion points/questions

- What are unique advantages of retail bonds for a new borrower such as Scottish Government over issuing other forms of borrowing e.g. loans from the UKG (through the National Loans Fund) or issuing "ordinary" government bonds (gilts)?

- We will have to assess the value for money of using various borrowing methods. Can you assure us that retail bonds will provide us as borrowers with value for money?
- We know of the Italian Government, Catalonian, Irish and Belgian issues of retail bonds? What other public sector bodies across the world are issuing them? Are they succeeding?
- How will Brexit complicate the borrowing picture for Scotland? For example, we believe the retail bond market is regulated by the EU?

DFS: Fiscal Responsibility

End of briefing