

General Criteria:

Enhanced Methodology And Assumptions For Rating Government-Related Entities

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General Criteria:

Enhanced Methodology And Assumptions For Rating Government-Related Entities

(Editor's Note: This article supersedes "Request For Comment: Enhanced Methodology For Rating Government-Related Entities And Assessing The Potential For Extraordinary Government Intervention" published Jan. 23, 2009, and "Rating Government-Related Entities: A Primer" published June 14, 2006.)

Standard & Poor's Ratings Services is refining its methodology for rating government-related entities (GREs) following the publication of "Request For Comment: Enhanced Methodology For Rating Government-Related Entities And Assessing The Potential For Extraordinary Government Intervention," on Jan. 23, 2009. We are publishing this article to help market participants better understand how we include government support in our issuer credit ratings. This article is related to our criteria article "Principles Of Corporate And Government Ratings," which we published on June 26, 2007.

CRITERIA SUMMARY

GREs are enterprises potentially affected by extraordinary government intervention during periods of stress. GREs are often partially or totally controlled by a government (or governments) and they contribute to implementing policies or delivering key services to the population. However, we have observed that some entities with little or no government ownership might also benefit from extraordinary government support due to their systemic importance or their critical role as providers of crucial goods and services.

We consider governments' interventions as "extraordinary" when they are temporary, entity-specific, and related to financial stress at the GRE or at the government level. In most cases, the intervention is likely to be in the form of extraordinary governmental support and in such cases the GRE's rating would likely be enhanced by its relationship with the government. Conversely, a government intervention could operate to redirect GRE resources to the government and weaken the GRE's credit quality.

Standard & Poor's general analytical approach to rating GREs is to consider their credit quality as falling between the inclusive bounds formed by the GRE's stand-alone credit profile (SACP) and the government's rating. The GRE rating is based on an analysis of the following elements:

- The GRE's SACP, which represents the GRE's credit quality in the absence of extraordinary support or burden.
- The government's rating, which speaks to the government's ability to support (or, in a negative scenario, its need to avail itself of the resources of) the GRE.
- Our opinion of the likelihood of sufficient and timely extraordinary government intervention in support of the GRE meeting its financial obligations, as derived from our assessment of the importance of the GRE's role to the government, as well as the strength and durability of the links between the two.

Standard & Poor's distinguishes between government intervention that enables a timely repayment of a GRE's debt and intervention that principally aims at supporting an entity's employment or operations but might not necessarily reduce the likelihood of default.

These criteria apply to the more than 500 GREs rated by Standard & Poor's with the exception of some financial institutions.

The potential for extraordinary government support is an important factor driving the creditworthiness of all financial institutions. However, these criteria only apply to financial institutions with a public policy role and/or where government ownership is strategic and long-term in nature. Criteria published in "External Support Key In Rating Private Sector Banks Worldwide," Feb. 27, 2007, and "How Systemic Importance Plays A Significant Role In Bank Ratings," July 3, 2007, continue to address the way extraordinary government support is incorporated into ratings on the majority of commercial financial institutions. While many characteristics of commercial financial institutions fit in with this broader approach to GREs, some types of government support in the banking sector call for a modified approach. Further criteria development is required before applying this broader GRE methodology to all financial institutions; Standard & Poor's expects to successively update its criteria on this subject.

UPDATES TO EXISTING CRITERIA

This article supersedes "Rating Government-Related Entities: A Primer," published June 14, 2006. It also follows and supersedes "Request for Comment: Enhanced Methodology For Rating Government-Related Entities And Assessing The Potential For Extraordinary Government Intervention," published on Jan. 23, 2009.

Standard & Poor's has, over the years, incorporated in its ratings its opinion of the likelihood of a government taking timely extraordinary measures that could affect the credit risk of certain entities during periods of stress. We have observed, however, that the relationships between GREs and their respective governments have become ever more complex.

Accordingly, we have enhanced our methodology for rating GREs and assessing the potential for extraordinary intervention by introducing certain clarifications designed to achieve a more granular analysis of the range of GREs across sectors and regions and capture their increased complexity. We think these modifications will provide more transparency in our rating approach.

The most significant changes are:

- Focusing our assessment of the likelihood for extraordinary government intervention on (i) the importance of the GRE's role and (ii) the strength and durability of its link with the government; therefore placing less emphasis on the "binary" categorization of GREs as either "public policy" or "commercial" entities.
- Further emphasizing the importance of the GRE's stand-alone credit profile (SACP).
- Providing more transparency on how the combination of the SACP, the government rating, and Standard & Poor's analysis of the importance of the GRE role and the link to the government combine to determine the GRE rating.

IMPACT ON OUTSTANDING RATINGS

Overall, we estimate that between 10% and 20% of rated GREs are likely to be affected by the revised criteria. We expect the effect to be positive or negative depending on the individual situation of each GRE and to be generally within one or two notches from the current rating.

EFFECTIVE DATE AND TRANSITION

The criteria described in this article are effective immediately. We intend to complete our review of all issuers affected within the next three to six months.

METHODOLOGY AND ASSUMPTIONS

Definition Of Extraordinary Government Intervention

We view extraordinary government intervention as either "discrete" or "temporary" (as opposed to ongoing), entity-specific (as opposed to system-wide), and often related to financial stress at the GRE level. We view the potential for extraordinary government intervention as coming on top of "ongoing" interactions. Extraordinary intervention may result in an enhancement of a GRE's rating if it is in the form of support. More rarely, government intervention may weaken a GRE's credit quality if it operates to redirect a GRE's resources to the government.

The line between what may be termed "extraordinary" and "ongoing" intervention is not always distinct. However, "extraordinary" interventions usually occur in periods of stress and take the form of liquidity injections, loans from the government or through government-owned banks, recapitalizations, or arrangement of a solvency rescue package directly from the government or through other market participants. If the GRE accounts for a substantial share of government revenues, "support" may mean the government takes less and leaves more to the GRE for its own investment and debt-service needs. Examples of negative extraordinary intervention include special tax, dividend, asset- or cash-stripping, or other measures that the government may impose to divert GRE resources to the government, as the government's needs rise.

Standard & Poor's assesses the likelihood of timely and sufficient extraordinary support from the government to the GRE on the basis of the GRE's capacity and willingness to meet its financial commitments as they come due. A government's perception of need for support may therefore be different from our definitional standard. More precisely, a default on non-deferrable subordinated debt, or a delay of payment for a short period of time, or a debt restructuring which we would consider to be distressed and below par, would typically be treated as a default according to Standard & Poor's ratings definitions, even though the government might have provided some form of support.

Stand-Alone Credit Profile (SACP) And Government Ratings

An entity's SACP reflects Standard & Poor's opinion of an entity's creditworthiness, before taking into account the potential for extraordinary government intervention. Regular "ongoing" interactions with the government are generally incorporated in an issuer's SACP, along with related day-to-day benefits or burdens and/or system-wide regulatory frameworks. Extraordinary support also becomes part of the SACP once it has been received. The SACP is assigned based on the relevant criteria for the GRE--a GRE transit system's SACP is based on transit criteria, a GRE university's SACP is based on university criteria.

Ongoing interaction includes, but is not limited to, recurrent operating or capital subsidies, access to preferential funding, monopoly powers, favorable government contracts, and sympathetic regulatory regimes, price ceilings,

risky project mandates, and directives to provide loss-making goods and services. On the financial side, the SACP encompasses dividend policies, equity issuance flexibility, the tax regime, and existing guarantees or lines of credit. For government-owned financial institutions, "ongoing interaction" includes system-wide features designed to support access to liquidity and support market confidence, such as the provision of liquidity lines, a "discount window," securities repurchase, and other similar facilities made available by the central bank or the government to all financial institutions in a given banking system.

Defined in this way, the SACP identifies the downside for the GRE if the potential for extraordinary government support dissipates. It also provides the clearest view of the contingent liability the GRE poses for the government.

Government ratings are determined in accordance with "Methodology And Assumptions: Rating International Local And Regional Governments," published Jan. 5, 2009 and "Sovereign Credit Ratings: A Primer," published May 29, 2008.

Assessment Of The Likelihood Of Extraordinary Government Support

Standard & Poor's evaluates the relationships between GREs and governments while observing that they are sometimes unclear and that extraordinary government intervention is not always predictable.

As a general rule, we believe that the higher the likelihood of sufficient and timely extraordinary intervention, the closer the GRE's rating is likely to be to the government's rating. The lower the likelihood of intervention, the closer the GRE's rating is likely to be to the GRE's SACP. To provide more specific guidelines, Standard & Poor's has developed a matrix approach designed to focus on two parameters: the importance of the GRE's role to the government and the link between the GRE and the government, which are defined in the section below (tables 1 and 2). Combined, these two factors help assess the likelihood of extraordinary government support. The factors are not necessarily equally weighted but are based on our analysis, as described in the matrix below.

		Importance of the GRE's role to the government			
		Critical	Very important	Important	Limited importance
Link between the GRE and the government	Integral	Almost certain	Extremely high	High	Moderately high
	Very strong	Extremely high	Very high	High	Moderately high
	Strong	High	High	Moderately high	Moderate
	Limited	Moderately high	Moderately high	Moderate	Low

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As we observe more instances of GREs being supported (or not), we may modify the matrix to reflect such instances. If we modify this matrix, we will update our criteria and communicate the change to market participants.

Assessing the importance of the GRE's role to the government

Standard & Poor's analyzes the importance of the GRE's role to the government by assessing the severity of the effect that a default of the GRE would have for the government or the local economy. A GRE may be important to the government either because it implements a key national policy, provides an important public service, or because it affects the proper functioning of an important economic sector. Our qualitative assessment is supported by quantitative indicators that vary depending on the nature of the GRE's activity and may include, for instance, the number of employees, the GRE's revenues as a percentage of the country's GDP, its share in national exports, its share in the production of energy for the country, or its share in national deposits for a bank.

While assessing the importance of a GRE's role, we focus on the potential consequences deriving from the absence of government intervention, or more precisely, the implications that a default of the GRE would have for the government. We distinguish on a continuum between support from the government that mostly targets the continuation of the GRE's activities and/or the safeguard of employment, and support aimed at ensuring the full and timely payment of bondholders.

Standard & Poor's has observed that the importance of a particular GRE might vary over time, triggering different reactions for a government depending on the circumstances and the consequences of the GRE's default. For instance, in periods of fragile market confidence, the failure of a relatively small public bank may have systemic repercussions. Such repercussions would increase the importance of the GRE for a certain period and could prompt the government to provide extraordinary support. In our view, a different result might attain were the entity's troubles to occur in a more benign environment with the consequences of non-intervention less severe. More generally, we usually try to assess a hypothetical stress scenario for a particular GRE and the government's potential response in this situation. Accordingly, our opinion of the importance of a particular GRE may evolve over time to reflect those considerations.

Standard & Poor's distinguishes four different levels when assessing the importance of the GRE to the government:

- Critical
- Very important
- Important
- Limited importance.

The criteria for determination of the importance of the GRE's role are described in table 1 below.

Table 1

Assessing The Importance Of A GRE's Role To The Government	
Critical	<p>A default of the GRE would have a critical impact for the government, for one of the following reasons:</p> <p>-- The GRE operates essentially on behalf of the government and its main purpose is to provide a key public service that could not be readily undertaken by a private entity and that would be likely conducted by the government itself if the GRE did not exist.</p> <p>-- The GRE is among the most important GREs in the country/region and it plays a central role in meeting key economic, social, or political objectives of the government or in the implementation of a key national or regional policy.</p>
Very important	<p>A default of the GRE would have a major impact for the government, for one of the following reasons:</p> <p>-- The GRE operates essentially as an independent not-for-profit entity and it plays a very important role in meeting key economic, social, or political objectives of the government or in the implementation of a key national or regional policy.</p>

Table 1

Assessing The Importance Of A GRE's Role To The Government (cont.)	
	-- The GRE operates essentially as a profit-seeking enterprise in a competitive environment, and its default/credit stress would lead to a disruption of its activities and have a significant systemic impact for the local economy.
Important	A default of the GRE would have an important but manageable impact for the government, for one of the following reasons:
	-- The GRE operates essentially as an independent not-for-profit entity, which participates in the provision of a public service as its primary role, and this individual role is important for the government.
	-- The GRE operates essentially as a profit-seeking enterprise in a competitive environment, and its credit standing is important for the government because one or more of the conditions below are met:
	* It provides essential infrastructure, goods, or services to the population.
	* Part of its activities relates to an important public policy role.
	* Its default/credit stress would lead to a disruption of its activities and could have an important impact on a sector of the economy.
Limited importance	A default of the GRE would have a limited impact for the government, for one of the following reasons:
	-- The GRE operates essentially as an independent not-for-profit entity that participates in the provision of a public service as its primary role, but the individual importance of the entity to the government is relatively minor.
	-- The GRE is a profit-seeking enterprise in a competitive environment, whose activity is relatively important for the government, but one or more of the conditions below are met:
	* It is one among many GREs and/or its activity could easily be undertaken by a private sector entity or another larger GRE if it ceased to exist.
	* The government is primarily interested by the GRE's operations and/or employment and not so much by its credit standing.

Entities with less than limited importance to the government are not considered as GREs and are not reflected in the above table.

Assessing the strength and durability of links between the GRE and the government

An analysis of the strength and the durability of the links between a GRE and the government can be estimated by the degree to which the government drives the GRE's strategy and its operations and by its level of supervision. Analytical considerations include the percentage of ownership of the GRE and/or other factors including the existence of a partial or ultimate government guarantee of the GRE's obligations or reputational risk to the government should the GRE default.

Our analysis of the links between a GRE and its government takes into consideration our opinion on the government's general propensity to intervene in the GRE sector in a credit supportive and timely manner. In particular, we analyze the government's current willingness to support a particular GRE, supported by its policy, its track record of past interventions, its degree of involvement in the day-to-day operations of its GREs, but also the cultural and political aspects related to the government's intervention and its administrative capacity to provide timely support. Finally, we look at the spectrum of activities covered by the GRE sector as well as the potential constraints that might arise from a legal or regulatory framework such as the EU competition laws. In governments where we believe there is a high propensity to intervene, we generally assess that the link between the government and its GREs is stronger than for governments with what we view as a low propensity to support. If we doubt the willingness and/or capacity of the government to provide timely support for policy reasons, weak administrative capacity, or past practices, we would generally consider that the link between the government and its GRE is low, even if the GRE has a critical role.

Standard & Poor's distinguishes four different levels when assessing the strength of the link between the GRE and

the government:

- Integral
- Very strong
- Strong
- Limited.

The levels are described in table 2 below.

Table 2

Assessing The Strength And Durability Of The Link Between The Government And The GRE	
Integral	<p>The GRE is essentially an arm of the government and has a policy, supported by a track record, of providing considerable and timely credit support in all circumstances</p> <p>-- The government has a policy, supported by a track record, of providing support to the GRE in all circumstances AND:</p> <p>* The GRE has a special public status or is a government agency and can be considered as an extension of the government.</p> <p>* OR: the GRE is fully owned by the government which acts more as a manager than a shareholder. It drives the GRE's strategy, determines key budgetary decisions, and maintains a very tight degree of control to ensure the implementation of the GRE's policy role. This situation is unlikely to change in the long term.</p>
Very strong	<p>The government has a very strong and durable link with the GRE and has a policy, supported by a track record, of providing very strong and timely credit support in most circumstances</p> <p>-- The government is a strong and stable shareholder, and it has a policy and/or a track record of providing support to the GRE in most circumstances, and one or more of the conditions below are met:</p> <p>* The government has a strong influence on the GRE's strategic and business plans. Privatization is not contemplated in the medium term.</p> <p>* The GRE benefits from a form of ultimate, statutory, or long-term guarantee from the government, implying a tighter link with the government and incentive to support.</p> <p>* A financial distress/default of the GRE would significantly affect the government's reputation, as the latter is publicly associated with the GRE through strong political involvement and a high degree of control.</p>
Strong	<p>The government is an important shareholder of the GRE and/or has a policy, supported by a track record, of providing strong credit support in certain circumstances</p> <p>-- The government is an important--typically a majority--shareholder and has a policy and/or track record, of providing support to the GRE in certain circumstances, but one or more of the conditions below are met:</p> <p>* The GRE has a clear corporate governance set-up with an independent management that makes autonomous business decisions.</p> <p>* Privatization might be contemplated in the next three to five years and/or the government's involvement with the GRE is changing and rather unpredictable.</p> <p>* The government's ability to intervene is partly constrained by a legal or regulatory framework (e.g. European Union competition laws).</p> <p>-- The government is not a structural or important shareholder of the GRE but it has already taken some extraordinary actions--typically resulting in capital injections--and it has stated its intention to continue to do so on a temporary and exceptional basis (e.g. systemic financial crisis)</p>
Limited	<p>The government has limited interference with the GRE and has a policy, track record, and/or capacity of providing very limited credit support</p> <p>-- The government is a minority shareholder and does not interfere more than any other minority shareholder in the GRE's strategic decisions and operations.</p> <p>-- The government is an important shareholder, but one or more of the conditions below are met:</p> <p>* Privatization is ongoing or contemplated within the next two years and is expected to lead to a significant reduction in the government's ownership.</p> <p>* The government is not willing to provide support to its GREs on a timely basis, as reflected in its policy and/or track record of not interfering in the management of its GREs, and, in some cases, a track record of adverse/negative intervention leading to a weakening of the GRE's profile.</p>

Table 2

Assessing The Strength And Durability Of The Link Between The Government And The GRE (cont.)

* The government has very limited administrative and/or legal capacity to provide support to its GREs on a timely basis, and/or has limited financial capacity to do so, for instance considering the size of total financial liabilities in the GRE sector.

Determining The GRE's Issuer Credit Rating

Once the likelihood of extraordinary government support has been determined based on our evaluation of the GRE's role and link to the government and the above matrix, Standard & Poor's then establishes the GRE's issuer credit rating through the combination of the likelihood of extraordinary support, the SACP, and the government's rating. The combination of these factors and their effect on the GRE's rating is outlined in tables 3 to 7 below. These tables yield the GRE's issuer or senior credit rating based on its SACP (listed down the left-hand side of the table), the government's local currency rating (listed across the top of the table) and our assessment of the likelihood of extraordinary government support. The GRE's rating might vary by one notch up or down from the rating suggested in the tables, mostly depending on where its SACP and the government's rating fall respectively within their rating category and in cases of gradual transition in a GRE's role or link leading to a weakening of the likelihood of extraordinary government support over time.

Where extraordinary government support is viewed as highly likely and is the key rating driver

For GREs most closely tied to the government, our opinion that the government will likely extend timely extraordinary support during periods of economic or financial stress is generally a significant credit factor. In such circumstances, the rating of the GRE tends to be close to, and move in tandem with, that of the government, as illustrated in tables 3 and 4 below.

We haven't included a table for the case where the likelihood of support is almost certain, as Standard & Poor's would then generally equalize the rating of a GRE with that of the government.

Table 3

Determining A GRE's Issuer Credit Rating*: Extremely High Likelihood Of Support

GRE's SACP	Government's local currency rating					
	AAA	AA	A	BBB	BB	B
AAA	AAA					
AA	AAA	AA				
A	AA+	AA-	A			
BBB	AA+	AA-	A-	BBB		
BB	AA+	AA-	A-	BBB-	BB	
B	AA	A+	BBB+	BB+	BB-	B
CCC	BBB-	BBB-	BBB-	BB	B+	B-
CC	BB-	BB-	BB-	B+	B-	CCC+

*Subject to "application of currency considerations." SACP--Stand-alone credit profile.

In situations--which we expect to be rare--where a GRE's SACP is deteriorating to extremely weak levels (in the 'CCC' or 'CC' categories), despite the ongoing government support, we believe this could signal diminishing government support which we would reflect by a significantly lower rating (see the last two rows of table 3). Generally, these situations would trigger our reassessment of a GRE's importance to and link with the government.

As a result, we might decide to revise down our opinion on the likelihood of government support.

For this reason, even in cases where the likelihood of timely extraordinary government support is, in our view, extremely or very high, and the GRE's SACP may not be the primary driver in the determination of the GRE rating, we believe that it is nevertheless important to take an approximate view on the SACP, in order to identify the possible timing and extent of support. Furthermore, the GRE's SACP may help us gauge the government's contingent liability.

Table 4

Determining A GRE's Issuer Credit Rating*: Very High Likelihood Of Support

GRE's SACP	Government's local currency rating					
	AAA	AA	A	BBB	BB	B
AAA	AAA					
AA	AA+	AA				
A	AA	AA-	A			
BBB	A+	A+	A-	BBB		
BB	BBB+	BBB+	BBB+	BBB-	BB	
B	BBB	BBB-	BB+	BB+	B+	B
CCC	BB-	BB-	BB-	B+	B	CCC+
CC	B+	B+	B+	B	CCC+	CCC

*Subject to "application of currency considerations." SACP--Stand-alone credit profile.

Where extraordinary government support is viewed as reasonably likely and is not the primary rating driver

For entities we view as benefiting from supportive government policies, possibly direct assistance, and potentially extraordinary government intervention, but where the likelihood of the latter is lower, GRE ratings are usually more closely aligned with the GRE's SACP, as indicated in tables 5 to 7 below.

Table 5

Determining A GRE's Issuer Credit Rating*: High Likelihood Of Support

GRE's SACP	Government's local currency rating					
	AAA	AA	A	BBB	BB	B
AAA	AAA					
AA	AA+	AA				
A	AA-	A+	A			
BBB	A	A	A-	BBB		
BB	BBB	BBB	BBB	BBB-	BB	
B	BB	BB	BB	BB	B+	B
CCC	B	B	B	B	B-	CCC+
CC	B-	B-	CCC+	CCC+	CCC	CCC-

*Subject to "application of currency considerations." SACP--Stand-alone credit profile.

Table 6

Determining A GRE's Issuer Credit Rating*: Moderately High Likelihood Of Support

GRE's SACP	Government's local currency rating					
	AAA	AA	A	BBB	BB	B
AAA	AAA					
AA	AA	AA				
A	A+	A+	A			
BBB	A-	A-	BBB+	BBB		
BB	BBB-	BBB-	BBB-	BB+	BB	
B	BB-	BB-	BB-	BB-	B+	B
CCC	B-	B-	B-	B-	CCC+	CCC
CC	CCC	CCC	CCC	CCC	CCC-	CC

*Subject to "application of currency considerations." SACP--Stand-alone credit profile.

Table 7

Determining A GRE's Issuer Credit Rating*: Moderate Likelihood Of Support

GRE's SACP	Government's local currency rating					
	AAA	AA	A	BBB	BB	B
AAA	AAA					
AA	AA	AA				
A	A	A	A			
BBB	BBB+	BBB+	BBB	BBB		
BB	BB+	BB+	BB+	BB	BB	
B	B+	B+	B+	B+	B	B
CCC	CCC+	CCC+	CCC+	CCC+	CCC+	CCC
CC	CCC-	CCC-	CCC-	CCC-	CC	CC

*Subject to "application of currency considerations." SACP--Stand-alone credit profile.

Low likelihood of extraordinary government support

We may rate the GRE the same as its SACP where we believe that the likelihood of government support is low, generally because the GRE's importance for the government is limited and the two entities are not closely linked. This is the case, for instance, for a GRE performing a function that could be easily undertaken by other market participants and is usually operated by the private sector in other countries, or where the government acts mostly as a regulator and its interventions have the primary objective of enhancing (or in some cases protecting) the functioning of the relevant industry segment (regardless of ownership).

Appendix 1 represents the same content as tables 3 to 7 above, but classified on the basis of the government's rating.

Where a GRE has links to more than one government

In cases when a GRE is related to two or more governments (for instance through a split ownership), Standard & Poor's analyzes both the nature of the link between the GRE and each single government, as well as the relationships among the different governments. If, in our view, one government has a prominent link with the GRE and would appear to be the more willing to support fully the GRE, even if the other governments don't, we would use that one government's local currency rating as a reference in tables 3 to 7. If support were to come from all governments for their respective share (for instance based on percentages of ownership), then we would use the lowest government

rating as a reference in the tables 3 to 7. In cases where we are of the opinion that there would be "joint and several" support from all governments, the GRE's rating could be higher than reflected in the tables. Conversely, if we see a significant risk of overall support to the GRE being weakened by asymmetries in interests or slow joint decision-making, this could bear on our assessment of the likelihood of support, bringing it down to "low".

Application of currency considerations to tables 3 to 7

The GRE's local (and foreign) currency rating indicated in tables 3 to 7 would generally be capped at the level of the sovereign foreign currency rating, unless either i) the GRE benefits from at least an "extremely high" likelihood of sovereign support, or ii) the GRE has an SACP above the sovereign's foreign currency rating. In the first case, a GRE with "extremely high" likelihood of support, the GRE's local currency rating is as shown in the table, and the GRE's foreign currency rating is capped at the sovereign foreign currency rating.

In the second case, the GRE's local currency rating is likely to be the SACP (stress-tested for country risk) and the GRE's foreign currency rating will likely be the lower of the rating suggested by the SACP and the country Transfer and Convertibility assessment, as further addressed in the sections below, "Extraordinary government intervention may impair a GRE rating" and "Rating a GRE above the rating on its government." As mentioned above, the tables address the situation of the majority of GREs having an SACP below the government's rating and whose final rating is likely to benefit from extraordinary government support. The cases of GREs with an SACP above the government's rating are, in our experience, more infrequent.

Other Considerations

Extraordinary government intervention may impair a GRE rating

While in most cases the likelihood of extraordinary government intervention enhances a GRE's rating above its SACP, there are a few instances where government intervention is negative, potentially draining resources and keeping financial flexibility below what it would be on a stand-alone basis. This could be the case for GREs--government-owned oil companies for example--where the SACP is above the rating of its government in spite of the ongoing negative intervention which is already captured in the SACP. In these situations, we could assign to the GRE a final rating below its SACP to reflect our expectation of extraordinary negative intervention from the government, for instance through a tendency to increase taxes and dividends, to require the GRE to provide subsidies, or to restrict the GRE's flexibility in some other way in a period in which the sovereign faces fiscal or external stress. In other cases, risk of negative intervention would result in a lower SACP and final rating outcome. The risk of adverse intervention often increases when a government is in default or under financial pressure, therefore, it is relatively exceptional for a GRE to be rated above its related government, as explained below.

Rating a GRE above the rating on its government

By assigning a GRE a rating that exceeds its government's foreign (or local) currency rating, Standard & Poor's is expressing its view that the GRE's ability to service its debt is superior to that of the government and that, ultimately, if the government defaults on its foreign currency debt, there is a measurable likelihood that the GRE will not default. For this to happen, the first condition is that the GRE's SACP will exceed the government's foreign currency rating. The second condition is that the government's willingness and ability to impair the GRE's credit standing in periods of stress should be limited. The key considerations in these respects are:

- The GRE should be a fairly independent enterprise operating in a competitive environment. Government linkages should be limited.

- Government ownership, which should be materially less than 100%, is viewed in a parent/subsidiary context. If the parent (government) is under severe stress, it could demand increasing amounts of cash or other assets from the subsidiary. As a result, the GRE should demonstrate a significant ability to mitigate this type of government-owner interference through, for example, nongovernment shareholder support, solid governance standards, financial resilience to interference, and a track record of a hands-off approach by the government.
- The GRE's rating should reflect its ability to mitigate the relevant country risks. To assess this, we would review the business and financial impacts of country risk and subjecting the GRE to significant stress tests. (See "Corporate Ratings Criteria 2008," section "Country Risk.")

With regard to the last point, sovereign stress/default often creates very difficult business and financial environments and situations. To maintain a rating above that of the relevant sovereign's foreign currency rating, an entity should be able to "pass" significant stress scenarios. Such scenarios normally involve sharp currency depreciation, higher inflation, economic contraction, and rising real and nominal interest rates as well as reductions in government support, higher required reserves and other taxes, increases in regulatory risk, and nonpayment of government obligations.

The GREs most likely to pass these scenarios are, in our experience, sound oil companies that play no significant policy role and strong private-sector institutions, where the relevant sovereign is not expected to act in ways that specifically diminish these entities' flexibility in a time of sovereign stress.

In those situations where a GRE's local currency rating exceeds the sovereign foreign currency rating on the basis of the above conditions, Standard & Poor's practice is to cap the GRE's foreign currency rating by the sovereign's Transfer & Convertibility (T&C) assessment, as for any other non-sovereign entities. More information on the effect of the T&C assessments can be found in "Criteria For Determining Transfer And Convertibility Assessments," published May 18, 2009.

Financial institutions usually have neither local nor foreign currency ratings above the relevant sovereign's foreign currency rating because of:

- The institutions' overall credit exposure to the general economy, the performance of which is highly correlated with sovereign creditworthiness.
- The threats of negative intervention--such as a deposit freeze--in a sovereign stress scenario.
- The institutions' direct exposure to sovereign risk due to their holdings of government bonds on their balance sheets (increasingly the case in periods of stress).

Government guarantees

Some GREs have outstanding obligations benefiting from timely, irrevocable, and unconditional government guarantees. Standard & Poor's criteria for rating guaranteed debt are explained in "Legal Criteria For European Structured Finance Transactions," published July 2008, and more specific indications on the application to sovereigns can be found in "Rating Sovereign-Guaranteed Debt," published April 6, 2009. For example, in light of pressures on the credit markets, a number of governments introduced in 2008 and 2009 guarantee programs through which financial institutions obtained sovereign guarantees for some or all of their debt obligations. Those guaranteed obligations have been rated on the basis of such criteria.

In cases where the sovereign or other relevant governmental unit does not guarantee a particular issuance or GRE according to the above criteria, the GRE methodology is used to determine the relevant rating assigned to such

obligations or issuer.

A few GREs benefit from statutory guarantees, whereby the government would be ultimately liable for the GRE's obligations if the entity ceased to exist. In many cases the defining characteristic of such guarantees is that they do not promise timely payment and thus do not generally require the guarantor to meet the obligations on their respective payment dates but only after the resources of the guaranteed entity are exhausted (a process that could take some time). In those cases, we would consider that the existence of this statutory guarantee is one among other factors that might create an incentive for the government to provide timely support in accordance with our GRE methodology. More specifically, we view this as one of the elements that could lead us to assess a "very strong" link between the GRE and its related government, as described in table 2.

Rating GRE junior obligations

We have observed that governments may not necessarily support GREs in a manner that equally benefits all security holders. Indeed, supporting the GRE's higher-ranking obligations may be to the detriment of lower-ranking, and specifically subordinated and/or deferrable, obligations, as contemplated by the terms of their respective issuances.

Therefore, as for any other entity, specific obligations issued by a GRE might be rated differently from its issuer credit rating. Hybrid capital or other subordinated obligations may be rated below the issuer credit rating or senior obligations where we anticipate that intervention could be less beneficial (and possibly negative) than for other obligations, in accordance with our hybrid capital criteria. (See "Hybrid Capital Handbook: September 2008 Edition," published Sept. 15, 2008.)

Rating a GRE's subsidiaries

When rating a subsidiary of a GRE, we analyze the subsidiary's relationships both with its parent entity and with the government. We have observed different results across the universe of rated entities.

Case 1: The subsidiary is essentially not a GRE.

We rate the subsidiary primarily from a parent-subsidiary perspective, taking as a reference the parent's SACP.

For example,

Government: 'AA'

Parent's issuer credit rating: 'A'

Parent's SACP: 'BBB+'

Subsidiary's SACP: 'BBB-'

Subsidiary's issuer credit rating: Typically between 'BBB-' and 'BBB+''*

*Determined in accordance with the applicable criteria for the sector.

Case 2: The subsidiary stands, vis-à-vis the government, in the moderate-to-low corner of the GRE role-link matrix.

We consider both GRE and parent-subsidiary approaches, but focus more on the latter.

We typically consider the rationale for extraordinary government support to be significantly weaker for the subsidiary than for the parent. This could be for a variety of reasons (e.g., the link is indirect, and so seen as weaker; the subsidiary's role is of lower importance to the government; or because it is operating in a different country and

the government might be more reluctant to use domestic taxpayers' money to support non-domestic activities; and/or because of the possibility of group restructuring, divestments, or strategic revisions in a period of stress). In these situations, we would typically apply principles of our parent-subsidiary criteria (see section on "Nonrecourse debt of affiliates (scope of consolidation)" in "Corporate Ratings Criteria 2008," published April 15, 2008, and "Group Methodology for Financial Services Companies," published March 19, 2004) to rate those entities, considering what would be the parent's willingness and capacity (as measured by its stand-alone credit profile) to support its subsidiary.

For example,

Government: 'AA'

Parent's issuer credit rating: 'A'

Parent's SACP: 'BBB+'

Subsidiary's SACP: 'BBB-'

Subsidiary's issuer credit rating: Typically between 'BBB-' and 'A'

In many cases this could result in the subsidiary's issuer credit rating not being higher than its parent's as we would expect both any direct government support to the subsidiary to be recapturable back by the parent and any indirect government support to the subsidiary to be directly capturable by the parent.

However, the subsidiary's issuer credit rating could exceed the parent's SACP to the extent that a portion of extraordinary government support would benefit both parent and subsidiary (either because the support goes directly to the subsidiary or because it trickles down from government through the parent to, at least partially, the subsidiary).

Case 3: The subsidiary is a prominent government-related entity

In situations where despite its subsidiary status the GRE discharges important policy or other functions, we consider both GRE and parent-subsidiary approaches but will likely place more weight on the former.

The subsidiary's issuer credit rating is not necessarily limited by that of its parent. Where a subsidiary's issuer credit rating exceeds that of its parent, we will have likely concluded that despite the parent being under stress and potentially in default (inclusive of the support it could potentially have already received from the government), there is a reasonable likelihood that the subsidiary would not itself default.

In other cases, we may consider the subsidiary could itself qualify as a GRE, because of the prominence of its role and/or links with the government. Some subsidiaries might even be more important to the government than their parent holding if they provide a crucial service to the population for instance. In that case, we would apply the methodology explained in this article to rate the subsidiary. Finally, there might be cases where a subsidiary might benefit both from potential support from its parent as its investee and directly from the government as a GRE.

APPENDIXES

Appendix 1: Tables on Likelihood Of Extraordinary Government Support Presented By Rating Category Of The Government

Tables 8 to 13 below indicate what would be the GRE's issuer or senior credit rating based on its SACP (listed down the left-hand side of the table), our assessment of the likelihood of extraordinary government support (listed across the top of the table), and the government's local currency rating.

The GRE's rating might vary by one notch up or down from the rating suggested in the tables, depending on where its SACP and the government's rating fall respectively within their rating category.

Table 8

Determining A GRE's Issuer Credit Rating*: Government With A 'AAA' Local Currency Rating							
GRE's SACP	Likelihood of extraordinary government support						
	AC	EH	VH	H	MH	M	L
AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA
AA	AAA	AAA	AA+	AA+	AA	AA	AA
A	AAA	AA+	AA	AA	A+	A	A
BBB	AAA	AA+	A+	A	A-	BBB+	BBB
BB	AAA	AA+	BBB+	BBB	BBB-	BB+	BB
B	AAA	AA	BBB	BB	BB-	B+	B
CCC	AAA	AA-	BBB-	B	B-	CCC+	CCC
CC	AAA	A+	BBB-	B-	CCC	CCC-	CC

AC--Almost certain. EH--Extremely high. VH--Very high. H--High. MH--Moderately high. M--Moderate. L--Low. *Subject to "application of currency considerations."
SACP--Stand-alone credit profile.

Table 9

Determining A GRE's Issuer Credit Rating*: Government With A Local Currency Rating In The 'AA' Category							
GRE's SACP	Likelihood of extraordinary government support						
	AC	EH	VH	H	MH	M	L
AA	AA	AA	AA	AA	AA	AA	AA
A	AA	AA-	AA-	AA-	A+	A	A
BBB	AA	AA-	A+	A	A-	BBB+	BBB
BB	AA	AA-	BBB+	BBB	BBB-	BB+	BB
B	AA	A+	BBB-	BB	BB-	B+	B
CCC	AA	A	BB	B	B-	CCC+	CCC
CC	AA	A-	BB	B-	CCC	CCC-	CC

AC--Almost certain. EH--Extremely high. VH--Very high. H--High. MH--Moderately high. M--Moderate. L--Low. *Subject to "application of currency considerations."
SACP--Stand-alone credit profile.

Table 10

Determining A GRE's Issuer Credit Rating*: Government With A Local Currency Rating In The 'A' Category							
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Table 10

Determining A GRE's Issuer Credit Rating*: Government With A Local Currency Rating In The 'A' Category (cont.)							
Likelihood of extraordinary government support							
GRE's SACP	AC	EH	VH	H	MH	M	L
A	A	A	A	A	A	A	A
BBB	A	A-	A-	A-	BBB+	BBB	BBB
BB	A	A-	BBB+	BBB	BBB-	BB+	BB
B	A	BBB+	BB+	BB	BB-	B+	B
CCC	A	BBB	BB-	B	B-	CCC+	CCC
CC	A	BBB-	B+	CCC+	CCC	CCC-	CC

AC--Almost certain. EH--Extremely high. VH--Very high. H--High. MH--Moderately high. M--Moderate. L--Low. *Subject to "application of currency considerations."
SACP--Stand-alone credit profile.

Table 11

Determining A GRE's Issuer Credit Rating*: Government With A Local Currency Rating In The 'BBB' Category							
Likelihood of extraordinary government support							
GRE's SACP	AC	EH	VH	H	MH	M	L
BBB	BBB	BBB	BBB	BBB	BBB	BBB	BBB
BB	BBB	BBB-	BBB-	BBB-	BB+	BB	BB
B	BBB	BB+	BB+	BB	BB-	B+	B
CCC	BBB	BB	B+	B	B-	CCC+	CCC
CC	BBB	BB-	B	CCC+	CCC	CCC-	CC

AC--Almost certain. EH--Extremely high. VH--Very high. H--High. MH--Moderately high. M--Moderate. L--Low. *Subject to "application of currency considerations."
SACP--Stand-alone credit profile.

Table 12

Determining A GRE's Issuer Credit Rating*: Government With A Local Currency Rating In The 'BB' Category							
Likelihood of extraordinary government support							
GRE's SACP	AC	EH	VH	H	MH	M	L
BB	BB	BB	BB	BB	BB	BB	BB
B	BB	BB-	B+	B+	B+	B	B
CCC	BB	B+	B	B-	CCC+	CCC+	CCC
CC	BB	B-	CCC+	CCC	CCC-	CC	CC

AC--Almost certain. EH--Extremely high. VH--Very high. H--High. MH--Moderately high. M--Moderate. L--Low. *Subject to "application of currency considerations."
SACP--Stand-alone credit profile.

Table 13

Determining A GRE's Issuer Credit Rating*: Government With A Local Currency Rating In The 'B' Category							
Likelihood of extraordinary government support							
GRE's SACP	AC	EH	VH	H	MH	M	L
B	B	B	B	B	B	B	B
CCC	B	B-	CCC+	CCC+	CCC	CCC	CCC
CC	B	CCC+	CCC	CCC-	CC	CC	CC

AC--Almost certain. EH--Extremely high. VH--Very high. H--High. MH--Moderately high. M--Moderate. L--Low. *Subject to "application of currency considerations."
SACP--Stand-alone credit profile.

Appendix 2: Examples Of Application Of The GRE Criteria By Sector Of Activity

Table 14 presents some examples of sectors of activity where we have assessed the same likelihood of support for a certain number of GREs.

Table 14

Examples Of Sectors Of Activity For Each Category Of "Likelihood Of Support"	
Likelihood of support	Examples of sectors of activity
Almost certain	Certain government-owned development agencies, export credit institutions, strategic petroleum reserves, national health care, social security funding agencies, national housing agencies, some owners of key national infrastructure (e.g. rail), government treasury corporations, or funding authorities
Extremely high / very high	Certain local public transportation authorities, government-owned providers of essential utility services (water, power grids), providers of important public infrastructure, financial institutions with a public mission
High / moderately high	Certain government-owned systemically important commercial banks or utilities in interventionist countries, postal services, national oil or energy producers, rail services, and electricity distributors
Moderate / low	Certain important private-sector commercial banks, some government-owned real estate development entities, and local housing companies

Appendix 3: Results Of Request For Comments And Main Differences Between This Criteria And The Request For Comments

On Jan. 23, 2009, Standard & Poor's published "Request For Comment: Enhanced Methodology For Rating Government-Related Entities And Assessing The Potential For Extraordinary Government Intervention." We received several responses from market participants, generally positive about the greater transparency and clearness of the proposed revised approach, but some asked for greater guidance and specificity on how the different components for a GRE rating are assessed and how they interact. As a result, Standard & Poor's has worked to further enhance the transparency and clarity of its criteria. In particular, the main changes between the criteria presented in the Request For Comment and the final criteria as described in this article are the following:

- We have devised guidelines on how to assess the importance of a GRE's role to the government, while focusing the definitions on the implications of a default of the GRE for the government (see table 1), and on how to assess the strength and the durability of the link between a GRE and its related government, incorporating some considerations on the government's propensity to intervene (see table 2).
- We have devised tables (tables 3 to 7) showing how key rating factors interact to arrive at the GRE's issuer credit rating, and in particular, how the respective level of the GRE's stand-alone credit profile and the government's rating affect the final outcome.
- We are still working on the specific application of this methodology to private commercial banks.

Related Research

- Request For Comment: Enhanced Methodology For Rating Government-Related Entities And Assessing The Potential For Extraordinary Government Intervention, Jan. 23, 2009.
- Principles Of Corporate And Government Ratings, June 26, 2007.
- External Support Key In Rating Private Sector Banks Worldwide, Feb. 27, 2007.
- How Systemic Importance Plays A Significant Role In Bank Ratings, July 3, 2007.

- Rating Government-Related Entities: A Primer, June 14, 2006.
- Methodology And Assumptions: Rating International Local And Regional Governments, published Jan. 5, 2009.
- Sovereign Credit Ratings: A Primer, May 29, 2008.
- Corporate Ratings Criteria 2008, April 15, 2008.
- Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009.
- Legal Criteria For European Structured Finance Transactions, July 2008.
- Rating Sovereign-Guaranteed Debt, April 6, 2009
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008.
- Group Methodology for Financial Services Companies, March 19, 2004.

These criteria represent the specific application of fundamental principles that define credit risk and ratings opinions. Their use is determined by issuer- or issue-specific attributes as well as Standard & Poor's Ratings Services' assessment of the credit and, if applicable, structural risks for a given issuer or issue rating. Methodology and assumptions may change from time to time as a result of market and economic conditions, issuer- or issue-specific factors, or new empirical evidence that would affect our credit judgment.

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