Article Title: ARCHIVE | Criteria | Governments | Sovereigns: Methodology: Weak-Link Approach For Composite Government Issuance With Several Payment Responsibilities Data: (EDITOR'S NOTE: — This criteria article is no longer current.) Standard & Poor's Ratings Services is explaining its methodology for rating debt issued by a group of sovereign governments in which each bears debt-servicing responsibility for only its own portion of the proceeds. These criteria use a specific methodology related to our fundamental rating principles, as described in "Principles of Corporate and Government Ratings," which we published on June 26, 2007, on RatingsDirect. The methodology is a simplified version of that used for long-term municipal pools because there is no expectation of over-collateralization, step-up provisions, or other such enhancements (for further details see "Long-Term Municipal Pools," published on Oct. 19, 2006. This article is part of a broad series of measures announced last year to enhance our governance, analytics, dissemination of information, and investor education initiatives. These initiatives are aimed at augmenting our independence, strengthening the rating process, and increasing our transparency in order to serve global markets better. Methodology This article explains the rating approach Standard & Poor's would generally apply where a number of sovereign governments together issue a bond for which they are severally responsible. While Standard & Poor's has not rated any such bond to date, we note that the issuance thereof is being discussed among market participants in light of the widening of bond and credit default swap (CDS) spreads between sovereign members of the European Monetary Union (EMU) since late 2008. Proponents of these types of issuances have mentioned as potential advantages improved liquidity for smaller sovereign issuers and lower borrowing costs for those at the lower end of the credit spectrum by mingling sovereigns in the 'AAA' category with lower rated sovereigns in the 'A' and 'AA' categories. We anticipate that such composite, severally liable issuance is unlikely to be realized at significant scale beyond a group of similarly rated sovereigns given the potentially higher financing costs for higher rated sovereigns issuing in combination with lower rated peers. Our rating approach described herein would apply where each participating government would be responsible only for the debt service of that share of the bond proportional to the share of the receipts it received at the time of the bond sale and no government would be liable for more than its own share. We see this format as equivalent to packaging a pool of several sovereigns' identical issues (tenor, coupon, interest dates) into a single bond. Under these circumstances, Standard & Poor's would generally rate the bond at the rating level of the lowest rated participating sovereign (weak-link approach), irrespective of how large or small that sovereign's share in the bond may be. If the lowest rated participating sovereign(s) were to be upgraded or downgraded, the composite issue would be upgraded or downgraded as well. The reason for this is that we deem it unlikely that a sovereign would continue to service the composite bond while defaulting on the debt issued in its own single name. If this assumption were to prove incorrect in practice and the defaulting government continues, against our expectations, to service its share of the composite bond, the composite bond would not be considered in default as long as debt service of all participating governments remains current. However, we would expect the composite bond to be rated at that time at a low noninvestment-grade level because the likelihood of the participating defaulted sovereign interrupting its debt service on the composite bond is likely to be substantial, in our opinion. If, on the contrary, a sovereign defaults on its share of the composite bond while continuing timely service of its single-name government bonds, Standard & Poor's would consider this a default of the composite bond and change the issuer credit rating on the sovereign to 'SD' (selective default). As concerns expected recovery, we believe that the composite bond may benefit from substantial recovery prospects, assuming that if one sovereign participant in the bond defaults on its share, it does not relieve the other governments participating in the bond from their payment obligations. While Standard & Poor's recovery ratings criteria currently apply only to noninvestment-grade sovereign issuers, the criteria could likely be extended to this type of situation, should such issuance become a reality (see "Introduction Of Sovereign Recovery Ratings," published on June 14, 2007). Among the factors we would consider are the ratings correlation of the sovereign participants and the weight of the different sovereigns in the composite obligation. If a composite sovereign bond included a guarantee by a higher rated guarantor, for example a supranational entity or a sovereign, and if this guarantee were viewed by us to be unconditional, timely, and irrevocable in line with Standard & Poor's criteria on sovereign guaranteed debt, the rating of the issue would likely be equalized with that of the guarantor (see "Rating Sovereign-Guaranteed Debt," published on April 6, 2009). 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