Fitch Ratings

Public Finance
Cross-Sector
Global

Public-Sector Counterparty Obligations in PPP Transactions Rating Criteria

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This criteria report updates and replaces "Public-Sector Counterparty Obligations in PPP Transactions Rating Criteria," dated May 2021.

Related Criteria

Infrastructure and Project Finance Rating Criteria (August 2021)

International Local and Regional Governments Rating Criteria (September 2021)

Government-Related Entities Rating Criteria (September 2020)

Sovereign Rating Criteria (April 2021)

Emerging Market Countries' Local and Regional Governments' Specific Securities Rating Criteria (December 2020)

US Public Finance Tax-Supported Rating Criteria (May 2021)

National Scale Rating Criteria (December 2020)

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Scope

These criteria outline Fitch Ratings' global approach to rating the obligations of a public-sector grantor (grantor) under a concession, lease or other agreement (referred to herein as a framework agreement) used to support a public-private partnership (PPP) financing for public infrastructure assets. Such ratings are an input in the rating process for PPP transactions. The criteria are used to assign new, and monitor existing, counterparty obligation ratings in PPP transactions.

The criteria establish a globally consistent framework to:

- Determine if the PPP framework agreement qualifies for assignment of a counterparty rating.
- Establish a methodology for notching from the general credit quality of the grantor.
- Explain Fitch's approach on consideration of a PPP obligation in the grantor's Issuer Default Rating (IDR; or equivalent), as well as implications for the grantor's IDR of a late payment or default on a PPP obligation.

Rating levels discussed in these criteria relate to Fitch's international rating scale. For counterparty obligation ratings in local markets that require national scale ratings, Fitch will assess the key rating factor attributes described in this report and apply a rating within the relevant national scale (for more information, see Fitch's "National Scale Rating Criteria" report).

The criteria consider public-sector counterparties such as sovereign, state, provincial, regional and local governments internationally and within the US; departments and agencies thereof; and public-sector enterprises outside of the US, including government-related entities (GREs).

Fitch will assess the counterparty obligations of public-sector enterprises in the US, such as a public college or university, a healthcare enterprise, a transit enterprise, or a water or power enterprise using the grantor's IDR as determined under the relevant sector-specific or master criteria, and include any applicable notching as defined in that criteria. For those sectors without IDRs, the junior general revenue bond rating or its equivalent is the broadest security provided. That rating is the best indicator of an entity's overall credit quality and analogous to an IDR.

Not all rating factors discussed herein apply to each individual rating. Each specific rating report discusses those factors most relevant to the individual rating assignment.

Key Rating Drivers

Determining the Obligation's Rateability: The rating of framework agreement obligations under PPPs is a distinctive situation similar to finance leases that are financial undertakings beyond typical contracts for goods and services. A legislative framework is established authorising PPPs as a tool for public-sector counterparties to procure essential public infrastructure that they continue to own/control. Fitch does not generally provide ratings on commercial undertakings of public-sector counterparties such as operating leases.

The framework agreement is integrally linked to debt financing organised to fund the infrastructure capital costs. Either grantor payments must continue until related project debt is repaid or the grantor commits to pay a termination amount equal to the amount of remaining project debt if the grantor exercises an optional termination right under the concession.

Grantor's IDR the Starting Point: The rating assigned to the grantor's PPP obligation may be equalised or notched downward from its IDR to distinguish the undertaking from the grantor's direct debt obligations. The extent of notching reflects the legal framework and project and reporting factors for the obligation with legal framework assessments more critical to the counterparty obligation rating.

PPP Obligations and Grantor IDR: The grantor's liability may be considered a contingent liability of the grantor that will crystallise through the duration of the project or added to the grantor's debt where appropriate. How a default under a framework agreement would be reflected in the grantor IDR, including whether it would be treated as a restricted default of the grantor and/or related sponsor government, would depend on a number of considerations as described further in the Consideration of PPP Obligations in IDR Analysis section (page 8), including the nature of the default.

Determining Grantor Obligation Rateability

Fitch will consider a narrow range of PPP framework agreement obligations to be rateable and distinguishable from more commonplace commercial arrangements based on consideration of the following five elements.

Clear Legislative Framework

Fitch views the establishment of a legislative framework by the relevant authority to enable the public-sector counterparty to pursue PPP transactions in general, or to authorise procurement of a specific project through a PPP, as an essential demonstration of public support as well as a recognition of the role of government financial obligations in funding the capital costs of the related infrastructure assets.

Essential Public Infrastructure

To be considered rateable, the PPP procurement should involve the construction, rehabilitation or extension of an essential public-purpose infrastructure asset that would otherwise be procured in the ordinary course by the public-sector counterparty through traditional public procurement processes. Examples include transportation facilities such as roads, bridges, airports and ports, as well as important government accommodations such as court rooms, prisons and government-supported healthcare facilities. Consumables and temporary accommodations in existing commercial spaces would not fall within this scope.

Grantor Control of Infrastructure Asset

The fact that the public-sector counterparty controls the asset and, at the end of the PPP arrangement, will operate the asset if it so chooses, distinguishes a transaction from an ordinary commercial leasing arrangement and gives it more the characteristic of a rateable finance lease, where, after a series of payments, title to a capital asset reverts to public-sector ownership after final nominal payment. This control would also be reflected in clear monitoring and reporting structures.

Integrated PPP Financing Part of Framework Agreement

The PPP financing should be executed by the grantor in the context of a framework agreement intended to fund the capital costs associated with procurement of the essential public infrastructure asset. Related agreements, including financing agreements, loan documentation, design-build contracts, and operation and maintenance contracts, should be built around the framework agreement. The framework agreement terms should reflect that the obligations of the grantor are clearly material to the performance of the project company, both operationally and financially.

PPP Rating Overview

Fitch defines PPP transactions broadly to include instances in which rights and responsibilities relating to the design, building, financing of capital costs, operations and maintenance connected to an essential public infrastructure asset are committed under a framework agreement by a public-sector grantor to a project company controlled by private-sector entities. Ratings of project company debt related to a PPP are evaluated under Fitch's "Availability-Based Projects Rating Criteria," report.

In some cases, the framework agreements include concessions, leases or private-ownership structures requiring the grantor to make periodic payments (availability, capacity or lease payments) that will be used principally to repay debt issued by the project company to defray capital costs related to development of the infrastructure asset. Timely receipt of the payment is needed to service the debt of the project company.

In other cases, the project company may be less dependent on periodic payments from the grantor, for example, where the PPP allows the project company to charge user fees or tariffs in return for taking demand risks associated with the project. Nonetheless, the project company may be dependent on payments to be made by the grantor in the form of milestone or one-time payments to defray capital costs incurred in constructing or rehabilitating the infrastructure asset. Timely receipt may be important to maintaining a financial profile or repaying bridge debt facilities.

In any case, the grantor will typically retain a right to terminate for convenience. In such an event, the project debt would need to be repaid from a terminal payment to be made by the grantor under the framework agreement.

The rating of the project company debt associated with the PPP financing includes consideration of the rating assigned to the grantor's counterparty obligation under the agreement but also takes into account numerous risks other than the performance by the grantor, including completion and operating risks borne by the project company, its sponsors and lenders. Often, these other risks, evaluated in the context of the financial leverage of the project company, will constrain the rating assigned to the project company debt to a level below the rating assigned to the grantor's counterparty obligation.

Fitch's ratings of project company debt are concentrated in the 'BB' and 'BBB' categories, lower than the credit quality of most public-sector grantor counterparty obligations. Nonetheless, the grantor is a key counterparty to the transaction. The performance of its financial obligations is essential to the solvency of the project company, and, therefore, a rating of this obligation must be determined to rate the project company debt. The rating assigned to the counterparty obligation of the grantor will serve as a cap on the rating of the project company debt for the life of the bonds where the project company's ability to complete the project or the project's performance is dependent on financial performance by the grantor.

Given the significance of the grantor's counterparty rating in PPP analysis, where the debt of a project company is to be rated either publicly or privately on a monitored basis, the grantor IDR and counterparty obligation ratings will also be subject to monitoring.

Termination Compensation

A distinguishing feature of the framework agreement essential to it being a rateable obligation is a requirement that the grantor pay a terminal value sufficient to repay the debt associated with the PPP if the framework agreement is terminated without any default by the project company. For example, the framework agreement may allow termination for public convenience.

In some cases, force majeure risks that cannot be efficiently transferred to the private sector (e.g. terrorism risks) are retained by the grantor, and termination for related force majeure requires the grantor to make a terminal payment sufficient to at least repay related project company debt. Such undertakings ultimately demonstrate both the special nature of the arrangement and the clear linkage to the debt incurred by the project company to procure the essential public infrastructure asset.

Certain transactions may not have an explicit termination payment; however, in such cases, the grantor continues to have payment obligations, even under an event of termination. Fitch considers this to be functionally equivalent to a requirement of termination compensation for the purpose of this test.

Determining Notching from Grantor IDR

If a grantor's obligation under a framework agreement in a PPP transaction is judged to be rateable, Fitch then uses the general credit quality of the grantor, as expressed in its IDR, as the starting point in determining a counterparty rating for the grantor's obligations in the transaction.

Establishing Grantor IDR

The grantor's IDR is determined under relevant Fitch criteria. For national scale ratings, references to IDRs are to the national-scale long-term rating of the issuer.

If the grantor is a government, its IDR is determined under Fitch's "Sovereign Rating Criteria," "International Local and Regional Governments Rating Criteria," or "US Public Finance Tax-Supported Rating Criteria."

If the grantor is a GRE outside the US, its IDR is derived pursuant to Fitch's cross-sector criteria report, "Government-Related Entities Rating Criteria." The definition of a GRE varies from one country to another, and is specified in the referenced criteria.

If the grantor is a division of government in the US, where government obligations are generally security-specific, the grantor's IDR is linked to the IDR of the sponsor government. Guided by Fitch's "US Public Finance Tax-Supported Rating Criteria," the degree of linkage is based on consideration of the nature of the relationship between the grantor and the sponsor government, and whether the grantor's funding is subject to legislative appropriation by the sponsor government. The more integrated PPP decision makers are in the central government structure, the closer the linkage between the sponsor government's IDR and the grantor's IDR, all else equal.

In certain cases, the grantor's obligation may be supported by dedicated reserves or specified revenues that, under relevant criteria, can be reflected by notching up from the grantor IDR. (For example, see Fitch's "Emerging Market Countries' Local and Regional Governments' Specific Securities Rating Criteria" report covering national scale ratings). In such cases, the adjusted IDR would be the starting point for any notching uplift applied to the grantor obligations under the PPP framework agreement.

There may also be cases where the grantor makes a specific pledge of revenues for payment on the obligation. In these cases, the obligation can be rated using relevant criteria for dedicated tax bonds (per Fitch's "US Public Finance Tax-Supported Rating Criteria").

Considerations for Notching from Grantor IDR

Fitch believes that a grantor's obligation under a framework agreement is, in many cases, weaker than its IDR. In most legal regimes, a public-sector counterparty can choose to perform on some financial obligations but default on others without risking insolvency proceedings or violating any obligation to pay all creditors on a parity basis. As an example, Italy and Spain allow preferential payments to tackle temporary liquidity shortfalls. In other words, legislation allows the subordination of the repayment of commercial liabilities (short term or debt toward suppliers of goods and services) to financial debt (loans and bonds). In the US, municipal issuers cannot be forced into insolvency proceedings, even if defaulting on one or more obligations. For this reason, Fitch applies a notching methodology to obligations that have a lower legal standing or less incentives to make timely payment.

A grantor's counterparty rating for a PPP obligation is typically notched from the IDR of the grantor on a project-specific basis. In general, this involves deductions of 0–3 notches from the grantor's IDR. The relatively tight band of notching from the IDR reflects the relatively high bar that Fitch sets for rateability of a PPP obligation; if an obligation is judged to be rateable, it, by definition, benefits from what Fitch judges to be a strong commitment.

When the obligation is from a sovereign government, Fitch will likely apply a narrower notching or none at all. This is because sovereign governments tend to implement stronger budgetary policies, and reporting and monitoring frameworks. This will drive a higher assessment on the most important rating factors detailed in the table and Legal Framework section below and Project and Reporting Factors section on page 7.

The following table provides guidance for considering notching based on the elements discussed more fully below. Generally, an obligation judged to have stronger linkage to the grantor across the main elements (particularly legal framework factors as noted earlier) may be assigned a rating zero to one notch below the grantor's IDR. A mix of midrange and stronger assessments would support a rating that is zero to two notches from the IDR; equalisation of the counterparty obligation rating to the grantor IDR is most likely in the case of sovereign grantors or if the counterparty obligation has cross-default provisions with grantor debt. A mix of stronger, midrange and weaker assessments would suggest a rating that is one to three notches off the grantor IDR. A profile of predominantly weaker elements would suggest notching beyond the normal limits.

The significance of the enumerated factors to the ultimate notching decision will vary based on the specifics of the grantor, framework agreement and project under consideration. Fitch would consider an obligation to be stronger even if certain attributes were characterised as midrange if the stronger attributes were considered to have greater importance. For example, if non-payment on the counterparty obligation would trigger a cross-default with the grantor's public debt, Fitch would not expect to notch down from the IDR, even if other factors were judged to be midrange or weaker.

In determining the degree of notching below the grantor's IDR, Fitch focuses on the following considerations.

Legal Framework

Fitch analyses the nature of the legal framework supporting the grantor's PPP payment obligation. This includes assessments of the:

- Source of funds.
- Budgetary process.
- Legal status and enforcement.

Source of Funds: Fitch considers what moneys will fund the framework agreement payments and how they flow. The strongest structures are those where the payment will be made from a broad pool of available funds. This is usually the case for sovereign governments in which a common pool or fund is allocated and used for expenditures according to the current priorities of the government.

The PPP obligation could be secured by a specific ring-fenced source of funds, notably from a higher tier of government supporting the project and committing to a part of its payment, such as through annuity grants, which would likely lead to a stronger or midrange assessment.

Contingent support from a higher-tier government could also come under various forms addressing situations where the grantor would face difficulties in honouring its PPP obligations.

Reflecting the prior claim on revenues, notching could be wider (all else equal) if the grantor has sizeable direct debt outstanding, even if the former does not rank senior to PPP obligations.

Attribute Guidance for Rateable PPP Framework Obligations

	Legal Framework			Project and Reporting Factors		
	Source of Funds	**Budgetary Process (Approval/Flows)**	**Legal Status and Enforcement**	**Accounting and Disclosure (Stocks)**	**Significance of PPP Funding Alternative**	**Significance of PPP Project**
Stronger	Payment source from broad pool of general funding provided in support of grantor's activity. In the US, the payments source is general funding for the sponsor government.	Equivalent to public indebtedness in budgetary process. Robust and sophisticated approval process, as typically in place for sovereign governments.	Equivalent legal status to public indebtedness. A direct obligation of a ministry of the sovereign, for which there is usually no legal priority given to financial debt over other obligations.	PPP commitment disclosed as debt, or PPP multiannual commitment clearly reported by a sovereign government.	Major PPP programme to fund public infrastructure generally, with established history and legislative acceptance.	Large scale and significant to grantor mission.
	Support from higher tier of government in form of funding from general revenue tax source or other broad base, or significant contingent support short of a guaranty from that higher tier of government.	Annual obligations included in grantor's multiyear budgetary projections.	Cross-default between PPP obligations and financial debt.			Demonstrated solid public and/or legislative support for the project.
Midrange	Payment source from select portion of grantor's funds, with limited access to broader pool. In the US, the payments source may be from the general funding of the grantor agency or a select portion of the sponsor government's funds.	Specific recognition of obligation in legislative and administrative processes.	Payment obligation prioritised over general spending but subordinate to other financial commitments	PPP commitment disclosed as a contingent obligation.	PPP is an important government initiative to promote infrastructure development but has a limited history.	Project typical of publicly funded infrastructure but has modest significance.
Weaker	Notably limited pool of available funds for payment obligation.	Obligation is within legislative or administrative authorisation generally but not specifically identified.	Payment obligation has no priority in budget process — same as general spending.	No disclosure of PPP commitment in financial statements or capital market disclosure.	PPP programme is articulated only generally in legislation but exists administratively.	Project involves discretionary infrastructure not typically considered core to the grantor's public mission such as stadiums.
			Subordinate legal status to public indebtedness or other financial obligations.			Lack of broad public and/or legislative support for the project.

Source: Fitch Ratings

Budgetary Process: Fitch considers the recognition and treatment of the obligation in the grantor's legislative and administrative processes as significant indicators of its commitment to the debt, which can inform the notching decision. The strength of the recognition will be noted and assessed as stronger or midrange, depending on the level of specificity. The inclusion of PPP obligations in multiyear budgetary projections would be a positive factor, speaking to the willingness and ability to meet the commitment.

Sovereign governments, notably within the OECD, tend to budget using a multiyear perspective, which allows for a better recognition of PPP obligations.

Legal Status and Enforcement: The rank and legal nature of the payment in the budgetary process are also important considerations. Some countries explicitly define some expenditure items as senior to others and even as "compulsory" expenditures, making them a priority in times of budgetary distress. Whether the PPP payments belong to a senior or junior category would have a direct effect on the extent of notching. PPP payments that are at the same level as grantor debt would be considered stronger, while those in the junior category may be assessed as weaker.

Cross-default clauses between PPP obligations and the financial debt of the grantor would be a strong signal that the former have the same strength as the latter and likely warrant a stronger assessment.

Cross-border transactions may include enforcement provisions such as an agreement to accept jurisdiction of courts outside the country, and/or arbitration processes under international standards. These could be considered an enhancement of the incentive to pay, aligning the obligation more closely with the IDR. But such provisions, in isolation, are not necessarily drivers for the equalisation of counterparty obligation ratings to the grantor's IDR.

There may be cases where the grantor is a government with taxing powers and the obligation under the PPP is legally an obligation subject to enforcement in the same manner and on a parity basis with the grantor's public debt. This would be judged a stronger attribute in the assessment. Fitch notes that for a sovereign government, the budget usually presents a consolidated picture of government operations and is voted on, as a whole, in the legislative body. This reduces the risk of subordination of such obligations.

Project and Reporting Factors

In addition to the legal framework, decisions made by the grantor and/or sponsor government related to the reporting of the obligation, as well as the significance of the PPP funding alternative and the project itself, inform notching decisions.

Accounting and Disclosure: The recognition of the PPP obligation on the balance sheet of the grantor and/or related government for the full amount payable in the future, with a transparent accounting method, is positive. Accounting for provisions or sinking funds meant to address risks or future expenditures related to the PPP would strengthen the position further.

Significance of PPP Funding Alternative: Fitch considers whether the PPP funding approach is widely embraced by the responsible government. In Fitch's view, wide use as a procurement strategy increases the incentive to perform the PPP financial obligations to maintain funding for an important strategic initiative.

There are jurisdictions where PPP funding for infrastructure is a significant programme established by specific legislation and used to fund a large number and variety of projects. For example, the UK private finance initiative (PFI) programme was established at the central government level. It provided a specific and uniform framework to local governments and government-supported entities to apply for and obtain designated financing within the overall government funding framework. The PFI initiative-funded projects include schools, labs, roads, hospitals and courthouses. Comparatively, in US states, there are only limited uses of PPPs, and they are often done on the basis of specifically designated projects, on a case-by-case basis. Notching would thus be wider in the US states relative to UK PFI transactions.

Significance of the Project: Fitch considers the scope, nature and significance of the project, as well as the nature of public support for the project. Fitch does not conduct independent assessments of the need for or desirability of a particular project but, rather, considers broadly the significance of the project to the grantor's public mission. Small-scale projects serving a limited set of stakeholders and having less benefits for the general public may attract wider notching if these characteristics are judged to limit the incentive in tight budget years to fund payment. In contrast, a project that is significant to the broader community and the mission of the sponsoring government may warrant less notching if these characteristics are judged likely to attract more support, even in lean years.

Other Considerations

Where a grantor is delinquent on a payment obligation under the PPP framework agreement but has not yet triggered a default termination under the agreement (e.g. due to administrative delays), Fitch may widen the notching if, in its judgment, the late payment reflects a heightened risk of default by the grantor. Conversely, a PPP counterparty rating may not be affected by a payment delay if, in Fitch's assessment, the delays reflect grantor recognition of adequate structural protections in the project's financing to absorb such delays. Either instance may affect the rating of the related project debt.

In the event of additional notching because of payment delays, the extent of the widening will reflect the assessment of the rating factors noted above. The widening would be limited to between one and two notches if the rating factors are assessed at midrange or stronger, given the relatively robust framework for the grantor to meet its counterparty obligations. The widening could be greater than two notches if the rating factors are assessed with either predominantly weaker elements or a mix of stronger, midrange and weaker assessments.

The PPP counterparty obligation rating is notched off the relevant IDR: the Local-Currency IDR when the obligation is denominated in local currency, and the Long-Term IDR when the PPP counterparty obligation is denominated in foreign currency. In cases where the PPP obligation is in local currency but the PPP project has foreign exchange debt and the government covers the foreign exchange fluctuations through an adjustment of the PPP counterparty obligation payment value, Fitch still rates the obligation based on the local currency.

In most cases, Fitch expects to have an outstanding IDR for the grantor. In instances where this is not the case, one will be determined.

As noted, in cases where the grantor rating references, or is linked to, the rating of another entity, the grantor IDR may be notched initially from that reference rating as provided in the relevant criteria.

In certain countries, a grantor's IDR may benefit from a ratings floor based on a framework in which it is expected that a higher level of government will support the public debt of the grantor. In those countries, Fitch also utilises a Standalone Credit Profile that reflects the grantor's credit profile absent such support. In such cases, notching will be from the Standalone Credit Profile of the grantor, without giving any credit to country-specific floors that would reflect higher-level government support for the public debt of the grantor, unless those are judged by Fitch to be applicable to the PPP transactions based on the overall evaluation of PPP funding techniques embraced by the government.

In certain transactions, the obligation of the grantor under framework agreements may be guaranteed by a supranational agency, such as the Multilateral Investment Guarantee Agency (MIGA) of the World Bank. Where the guarantee provides significant support for the obligation, Fitch believes that the presence of the supranational agency guaranty and the nature of the agency's relationship with the grantor are strong incentives to timely payment.

Similarly, a supranational such as the European Investment Bank or the European Bank for Reconstruction and Development may provide significant investment in debt or provide backstop lending commitments to support a PPP financing. In such cases, Fitch may consider the favourable effect of the supranational's involvement as a guarantor or lender in a project on the grantor's incentive to fulfill counterparty obligations, when determining notching from the grantor IDR, and reduce the notching otherwise suggested by the notching guidance above.

PPP obligation ratings, like other ratings, are accompanied by Rating Outlooks and Rating Watches. These will usually reflect the grantor's IDR Outlook or Watch. Additionally the Rating Outlook or Watch of the PPP counterparty obligation rating could be different from that of the grantor's IDR and, instead, reflect the dynamics of the notching factors.

Consideration of PPP Obligations in IDR Analysis

In general, Fitch believes an appropriate measure of the grantor's liability is to base it on the amount of project-related debt covered by the grantor payment that would need to be paid in the event that the framework agreement terminates either for grantor convenience or grantor default. The outstanding project company debt amount is a simple, transparent measure of this liability. Fitch believes that it also fairly reflects the amount of debt that the grantor would have issued directly to fund the capital costs of the project.

Notably, this calculation does not include the present value of operating and maintenance costs under the framework agreement, as these operating costs are not generally estimated and valued in the grantor's liability structure with respect to its directly procured and financed infrastructure assets. Likewise, it ignores any return on the equity component in the termination formula. Fitch considers that payment as analogous to the payment of additional amounts (e.g. premium) on a call option on bonded debt, which is not considered in assessing a government's IDR. For these reasons, Fitch believes that outstanding project company debt is a better proxy for the grantor's PPP liability than the full value of termination payments due under the PPP framework agreement.

In some circumstances, the grantor's obligations may be more tailored, for example, providing milestone payments in a PPP toll concession or a contingent payment stream to support revenues. In such cases, the probability of payment being required and the significance of that payment in determining the project rating will provide the context for treatment of the liability in the grantor's IDR analysis.

The measured liability may be added to the debt of the grantor in the IDR analysis or considered to be a contingent liability that will crystallise through the duration of the project. In any case, the treatment of the grantor's PPP obligation in the context of evaluating its rating and the rating of a related government that sponsors the grantor, if any, will be determined under Fitch's "Sovereign Rating Criteria," "International Local and Regional Governments Rating Criteria" or "US Public Finance Tax-Supported Rating Criteria," as applicable.

Consequence to Grantor IDR of PPP Obligation Default

The counterparty obligation rating would be a 'D' on the specific PPP obligation upon grantor non-payment by the dates dictated by transaction documents, such that it triggers a default termination remedy, unless that remedial payment to avoid termination is then made.

Fitch does not have an automatic or formulaic approach to the treatment of a default on payment of a grantor's PPP financial obligation. Rating implications for the grantor's IDR would be assessed under Fitch's "Sovereign Rating Criteria," "International Local and Regional Governments Rating Criteria" or "US Public Finance Tax-Supported Rating Criteria," as applicable.

The effect on the IDR of the grantor and/or related government would vary, depending on factors including the nature of the default, its duration considered in the context of the project company debt financing. In general, the default or delinquent payment of a PPP financial obligation would not cause Fitch to assign an 'RD' or 'D' to the grantor and/or related government IDR.

These obligations are not direct financial debt of the grantors owed to private creditors. However, Fitch anticipates that delinquency and default on a PPP financial obligation could be a sign of growing financial distress and/or lack of willingness to pay and may be reflected in a lower IDR for the grantor and/or related government (or standalone rating/profile where a floor is applied to the grantor IDR) pursuant to the relevant rating criteria for the grantor.

Given the relatively high bar that Fitch sets for the rateability of a PPP obligation, Fitch anticipates a PPP framework agreement obligation default, absent financial distress at the grantor level, would be rare. Some frameworks may have embedded flexibility for payment delays, for which the project company is in some form compensated; therefore, such delays would not be considered a sign of distress or delinquency for the government.

Variations from Criteria

Fitch's criteria are designed to be used in conjunction with experienced analytical judgment exercised through a committee process. The combination of transparent criteria, analytical judgment applied on a transaction-by-transaction or issuer-by-issuer basis, and full disclosure via rating commentary strengthens Fitch's rating process while assisting market participants in understanding the analysis behind the agency's ratings.

A rating committee may adjust the application of these criteria to reflect the risks of a specific transaction or entity. Such adjustments are called variations. All variations will be disclosed in the respective rating action commentaries, including their effect on the rating where appropriate.

A variation can be approved by a ratings committee where the risk, feature or other factor relevant to the assignment of a rating and the methodology applied to it are included within the scope of the criteria, but where the analysis described in the criteria requires modification to address factors specific to the particular transaction or entity.

Data Sources

The key rating assumptions for the criteria are informed by Fitch's analysis of transaction documents for various PPP projects; discussions with issuers and/or obligors for financed projects; and discussions with public-sector grantors and/or parent governments. These sources are also used when assigning ratings.

Limitations

Ratings, including Rating Watches and Outlooks, assigned by Fitch are subject to the limitations specified in Fitch's Ratings Definitions page, available at www.fitchratings.com.

Rating Assumption Sensitivity

Ratings on public-sector counterparty obligations in PPP framework agreements are generally sensitive to changes in the grantor's Long-Term IDR. Counterparty ratings are further sensitive to changes in the six aforementioned notching factors *(as described in this report and the notching guidance table on page 6)* where there have been material developments since Fitch's last rating action. Changes to one or more assessments of the notching factors, particularly the legal framework factors, could trigger changes in the rating of the counterparty obligation.