FitchRatings

Government-Related Entities Rating Criteria

Cross-Sector

Scope

This report sets out Fitch Ratings' methodology for assigning new and for monitoring existing international and national scale credit ratings to government-related entities (GREs) within corporates globally, infrastructure and project finance globally and non-US public finance.

The criteria set out in this report supplement and are applied in conjunction with: the Corporate Rating Criteria, the Infrastructure and Project Finance Rating Criteria, the Public Sector, Revenue-Supported Entities Rating Criteria, International Local and Regional Governments Rating Criteria and the Non-Bank Financial Institution Rating Criteria to assign both Issuer Default Ratings (IDRs) and instrument ratings. Instrument ratings are assigned in accordance with the relevant criteria used to assign the Standalone Credit Profile (SCP). Where no SCP is assigned and no relevant criteria is applicable, instrument ratings are assigned as described in the *Instrument Ratings* section in this report.

These criteria do not apply to commercial or investment financial institutions such as banks, but they may apply to entities which do not have, in strict terms, a legal ownership (due to their structure or specific status, such as foundations, associations or charities), but which are subject to a high level of government control.

National scale ratings for GREs are derived by applying these criteria in conjunction with the National Scale Rating Criteria. National ratings express an opinion of creditworthiness relative to the universe of issuers and issues within a single country. The notching applied to GREs rated on the national scale may be wider or narrower than the notching guidelines outlined in these criteria in order to preserve the relative ranking of risk within a country after considering national relativities.

Key Rating Drivers

Relative Importance of Key Rating Drivers: When the assessment of support is strong or better, the primary driver of the GRE's IDR will be that of the supporting government. When the assessment of support is weak or moderate, the primary driver of the GRE's IDR will be its SCP.

In assessing the likelihood of support, the "incentive to support" factors (socio-political and financial implications of default) are given more weight than the "strength of linkage" factors (status, ownership and control, and support track record). These factors can result in: the equalisation of the GRE rating with the government's IDR; a notching down of the GRE from the government's IDR; a notching up of the GRE rating from its SCP; or the SCP.

Strength of Linkage: This factor assesses the strength of the link between the government and the GRE, measured by the involvement of the government in the GRE's activities and any responsibilities on the part of the government to provide support to the GRE.

Incentive to Support: This factor assesses the perceived incentive of the government to provide support to the GRE when needed.

Single Factors Leading to Equalisation: In addition, there are a limited number of factors that Fitch believes, on a sole basis, are capable of warranting the equalisation of a GRE's IDR with that of its respective government.

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This report updates and replaces *Government-Related Entities Rating Criteria* dated 13 November 2019.

Applicable Criteria

Corporate Rating Criteria (May 2020)
Infrastructure and Project Finance Rating Criteria (March 2020)
Non-Bank Financial Institutions Rating Criteria (February 2020)
International Local and Regional Governments Rating Criteria (September 2020)
Public Sector, Revenue-Supported Entities Rating Criteria (March 2020)
National Scale Rating Criteria (June 2020)

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The GRE's IDR would normally be equalised with the government's IDR when the government guarantees more than 75% of a GRE's debt with no concern that payments will not be timely or that the level of the guarantee might change, when the GRE has a legal status that is tantamount to a guarantee, or when the GRE sustainably generates more than 10% of the revenues of the government.

Standalone Credit Profile: The SCP represents the credit profile of the GRE according to the relevant criteria, assuming no exceptional support from the government in a situation of financial difficulty.

Definition of "Government-Related"

An entity is deemed "government-related" when a government, either at the national, regional or local level, has sufficient control over the entity for a parent/subsidiary relationship to be present. In the rest of this report, the term "government" applies to the parent to which the GRE under consideration is related. Typically, this is indicated by the government having majority (direct and/or indirect) economic or voting control over the entity. In addition, if Fitch assesses that a government is likely to support an entity in financial distress to avoid, for example, the negative socio-political repercussions of a default, or if the entity fulfils an important public policy mission, then Fitch will consider the entity as a GRE.

Framework

The analytical approach for GREs combines an analysis of the Standalone Credit Profile (SCP) and of the likelihood of exceptional support in the event of financial difficulties at the GRE.

Assessment of Likelihood of Exceptional Support

In assessing the likelihood of support, Fitch considers two key rating factors, each sub-divided into two sub-factors, which are listed below. The first factor looks at the strength of the links, measured by the involvement of the government in the GRE's activities and any responsibilities of the government to provide support to the GRE, and the second one assesses the perceived incentive of the government to provide support to the GRE when needed.

Strength of Linkage

Status, Ownership and Control

The GRE's legal status may result in the government bearing the ultimate liability for the GRE's debt in a situation of default or liquidation. The ownership and control may reinforce the responsibility of providing support.

Support Track Record

Evidence of the government providing financial support to the GRE, and of whether this support has been regular and has assisted the GRE in maintaining an adequate financial profile, is used to assess the future likelihood of government support together with any future commitments for continuing support.

Incentive to Support

Socio-Political Implications of the GRE's Default

A default by the GRE may result in failure to continue to provide services, with a lack of alternatives. There may be social implications caused by default of the GRE in terms of employment or social unrest. Or there may be political implications of a default that could lead to perceptions that the government has failed to adequately fulfil its mandate or responsibilities.

Financial Implications of the GRE's Default

A default by the GRE may have implications for the ability of either the government or other GREs within the country to raise financing in the future. Consideration is given to the likely impact of the defaulting GRE relative to other GREs, as well as the financing market impact of the GRE default, and the implications for funding access for both the government and other GREs.

Each of these factors is assessed with a prospective bias as "Weak", "Moderate", "Strong" or "Very Strong" based on the definitions described in *Appendix 2*. Each level of assessment is associated with a score shown in the table below. Fitch weights "incentive to support" factors at double the level of "strength of linkage" factors, reflecting the importance that external pressures are likely to have on the provision of practical support under different circumstances at any particular point in time. The incentive to avoid adverse consequences for the government is viewed as a more significant indicator than involvement, or previously provided assistance, in determining whether future support will be forthcoming.

Assessment Scores

Assessment of the factor	Strength of linkage	Incentive to support
Very strong	10	20
Strong	5	10
Moderate	2.5	5
Weak	0	0

Source: Fitch Ratings

An overall support score is obtained by adding the scores for each support factor and this is then used to derive the IDR of the GRE via a tabulated notching approach. Fitch differentiates between the level of government support likely to be available by determining whether support is:

- highly probable (implying a top-down approach)
- or possible (implying a bottom-up approach), based on the above-mentioned considerations.

Notching Approach

SCPs are separated into five categories which then determine the level of notching derived from the overall support score. SCPs are categorised into those that are the same or higher than the corresponding government rating; those one to three notches below the government rating; those four notches below the government rating; and those which are more than four notches below the government rating. The IDR of the GRE including government support may be one of the following:

- Constrained: the IDR of the GRE is generally constrained by the government's IDR, except when the SCP of the GRE is above the government's IDR and the government has limited access to the cash or assets of its GRE (such as where a shareholder agreement, ring-fencing debt covenant or similar restriction is in place limiting cash and asset flows from the GRE to the government), in which case the GRE's IDR may be higher than the government's IDR.
- Equalised: GRE's IDR = government's IDR
- Top-down minus 1, 2 or 3: the GRE's IDR is one, two or three notches lower than the government's IDR
- Bottom-up plus 1, 2 or 3: the GRE's IDR is one, two or three notches above the GRE's SCP
- Standalone: GRE's IDR = GRE's SCP

A classification for notching based on the GRE's SCP (same/up to three notches away/four notches away/more than four notches) is utilised to reflect the fact that the higher the rating gap between the GRE and the government, the greater the reliance on support becomes.

In the situation where the SCP has not been derived or is not meaningful because it is difficult to de-link the issuer from the government, Fitch will follow the same approach as for an SCP "more than four notches away" from the government (see *Notching Guideline* table). When the SCP is not assigned or not meaningful, entities for which the notching approach is bottom- up or standalone would not be capable of being rated.

The assessment of support is dynamic – a GRE can shift from being rated top-down from the government's IDR to bottom-up, or vice versa depending on the evolution of the relationship with the relevant government. For example, a reduction in a state shareholding, a change in legal status or a marked change in the commercial environment of the GRE could result in Fitch no longer rating the GRE top-down and in the agency taking an appropriate rating action. Conversely, such things as increased levels of ownership or strategic activities, additional public service obligations, could lead to a move in the opposite direction (from bottom-up to top-down).

If material restrictions to support appear likely to prevent the government from providing support to the GRE, the overall support score is capped at 17.5 points and no top-down notching approaches may be applied. This could be the case when state aid regulations heavily limit support towards state-owned companies operating in competitive sectors.

The rating committee may adopt a more conservative notching approach than suggested by the Notching Guideline table if there is a high likelihood that the cause of the GRE finding itself in financial difficulties coincides with a reduced ability of the government to support the GRE, for example if the standalone rating drivers of the GRE and those of the government are closely linked to a specific commodity such as oil, and the vulnerability to a deterioration in these rating drivers is similar.

When the ownership rests with more than one government, Fitch uses a weighted average of the credit profile of the governments based on their controlling stakes and/or funding involvement in the GRE. Fitch considers any individual government entity owning or controlling 25% or more of the GRE until such entities cumulatively own 75% or more of the GRE's stakes. The weighted average will be capped however at the level of the credit profile of the government owning the largest stake. However, if there are a large number of government shareholders (eg, more than four) with no single government having more than 50% of the shares of the GRE, the agency may conclude that there are no sufficiently strong links to any members of the group to justify a "top-down" ratings approach and instead may apply a "bottom-up" approach.

Fitch may also encounter cases where a GRE is not owned by a clearly identified government shareholder but benefits from wide public system support. This support may result in a large share of the GRE's debt being guaranteed by other tiers of government, tight and thorough GRE supervision by the government or by its agencies, or ongoing provision of preferential rates or subsidised loans by an institutional lender, often a government-owned policy bank. In such unusual cases where direct support from an entity or group of entities is not clearly identifiable (which precludes a "top-down" approach) but systemic support is strong, Fitch would decide to apply a "bottom-up" approach and may determine that more than three notches of uplift is appropriate.

Rating Approach of Subsidiaries of GREs

As a standard practice, subsidiaries of GREs will be rated using the Parent and Subsidiary Linkage (PSL) Rating Criteria. Exceptions are those subsidiaries of GREs that are themselves public-mission GREs with strong links to the government; in such instances the GRE criteria will be applied directly to the subsidiary. The parent credit profile used in the PSL assessment will generally be the parent GRE's IDR (including government support). However, if Fitch believes that government support is unlikely to flow to the subsidiary (for example if the subsidiary does not undertake any public service or other activities which are driving government support for the parent GRE), the parent-GRE's SCP will be used as a starting point.

Elements taken into consideration are:

- the consequences of a default of the subsidiary on the GRE parent's operations;
- whether the subsidiary's operations are integral to the provision of the public service or economic activity which is driving the support of the government to the GRE (for example a foreign subsidiary of the GRE, even if very large, is unlikely to benefit from support from the government).

If the subsidiary's SCP is stronger than its GRE parent's IDR, the IDR of the subsidiary will normally be constrained at the same level as the IDR of the parent. In circumstances where the

GRE parent's access to its subsidiary's cash or assets is limited (for example by legal or formal operational requirements) then the committee may consider that the stronger SCP is not constrained. The "parent-GRE" is defined as the highest entity in the group responsible for operational management and setting strategic goals for the whole group. For that reason, the following type of entities will not be regarded as parent-GREs, meaning we will "look through" such entities when applying the GRE criteria:

- sovereign wealth funds or similar institutions;
- intermediate holding companies, with no material operations or debt, used by the government to hold its investments.

Where the PSL approach cannot be used because the parent GRE is not rated, Fitch will assess government support by applying the GRE criteria directly to the subsidiary, provided that Fitch is confident that entities upstream in the ownership chain would not prevent the subsidiary from receiving timely government support.

Instrument Ratings

For entities without assigned SCPs and for which there are no relevant criteria for the assignment of instrument ratings, the senior unsecured instrument ratings are generally equalised with the IDR.

For non-senior unsecured instruments, Fitch may notch instruments for different levels of the debt structure (eg for structural subordination or access to dedicated cash flow). For senior unsecured instruments with specific features, Fitch may refer to the approaches outlined in the Corporate Hybrids Treatment and Notching Criteria or the Non-Bank Financial Institution Rating Criteria to determine the final instrument rating.

Notching Guideline Table

SCP of GRE vs. Rating of government/overall support score	Equal or more than	Between	Between	Between	Between	Equal or less than	
	45	35 42.5	27.5 32.5	20 25	15 17.5	12.5	10
Same or above	Standalone or constrained	Standalone or constrained	Standalone or constrained	Standalone or constrained	Standalone or constrained	Standalone or constrained	Standalone or constrained
Up to three notches away from government	Equalised	Equalised	Equalised	Top-down -1[a]	Bottom-up + 1 capped at government - 1	Bottom-up + 1 capped at government - 1	Standalone
Four notches away	Equalised	Top-down - 1	Top-down - 1	Top-down - 2	Bottom-up + 1	Bottom-up + 1	Standalone
More than four notches away from government or standalone not derived/not meaningful[c]	Equalised	Top-down - 1	Top-down - 2	Top-down - 3	Bottom-up + 2 or +3 capped at government - 3[b]	Bottom-up + 1[b]	Standalone[b]

[a] If the SCP of the GRE is one notch below the government and the credit drivers of the GRE are largely independent from those of the government, a one-notch uplift to the same rating as the government can also be considered
[b] When the SCP is not assigned or not meaningful, entities for which the notching approach is bottom-up or standalone would not be rated
[c] The SCP may be 'not meaningful' when the issuer cannot be effectively de-linked from the government - notably when the GRE primarily acts on behalf of the government to perform a policy-driven mission and does not generate its own cash flow or because of very tight operational and financial links with the government.
Source: Fitch Ratings

Standalone Credit Profile

The SCP is derived using the relevant master criteria – for corporate GREs, the Corporate Rating Criteria; for public-mission GREs, the Public Sector, Revenue-Supported Entities Rating Criteria, – excluding any benefit from exceptional support from the government parent, amongst others; for projects, the Infrastructure and Project Finance Rating Criteria, and for some financial GREs the Non-Bank Financial Institution Rating Criteria.

The SCP of a GRE may not be capable of being determined due to the GRE operating as an extension of the government with little cash flows that could be assessed on their own merit. This would typically be the case when the GRE exists with the principal aim of executing a public policy mission and the level of government influence is integral in the strategy of the GRE, its operations and its financing – leading to support being incorporated in the assessment of the business profile of the GRE. In those cases, the assessment of the SCP would be considered 'not meaningful' and distinguishing between ongoing support (included in the SCP) and extraordinary support (included in the notching) becomes artificial; as a result, an SCP would not be required. On these occasions, Fitch would not derive an SCP, but will assume for the purpose of the notching approach described above that the SCP of the issuer is more than four notches away from that of the government.

In cases when the SCP of the GRE is higher than the IDR of the government, the relevant considerations of the Parent and Subsidiary Linkage Rating Criteria for Corporates will be applied to determine whether the IDR of the GRE is constrained or capped at the government's rating level. For the same purpose, where the SCP is assessed under the Infrastructure and Project Finance sector, the master criteria Infrastructure and Project Finance Rating Criteria will be applied. For policy GREs, we will use the Public Sector, Revenue-Supported Entities Rating Criteria.

Types of GREs

A GRE may have either a public mission (public GRE) or a corporate mission (corporate GRE).

A GRE with a public mission primarily provides essential public services or may have a social or political development role for its government (the sovereign or subnational). It may be directly or indirectly majority-owned by the government, and will tend to be tightly controlled and may have a special public status. The entity would normally be not-for-profit and have shareholding, legal and/or financial links to the government. If regulated, this should not hinder the government from giving direct or indirect financial assistance to the entity in case of need. The SCP of such entities would be assessed using the Public Sector, Revenue-Supported Entities Rating Criteria, or any specific sector criteria.

A GRE with a corporate mission may undertake some public service activities or fulfil a public sector mandate or role, but these may not be its primary activity. Similarly, it may receive some level of funding support or subsidy from the government, but its primary revenue source will be from commercial activities (receiving revenue from activities such as selling products or providing services). The corporate GRE will be directly or indirectly majority-owned by the government, and may have a special public status. If regulated, the regulation may not distinguish between the GRE and private-sector competitors. The SCP of such entities would be assessed using the Corporate Rating Criteria.

Exceptional Support or Ordinary Influence

Exceptional support relates to any type of support which would be provided to the GRE to help avoid the possibility of default. Exceptional support could come in many ways. For instance, the GRE may have access to emergency liquidity support from the government, or more pragmatically, the government could arrange a bail-out from public banks to allow the GRE to meet its financial commitments on time. Exceptional government support is not factored into the SCP.

Other types of government influence impacting creditworthiness such as, on the positive side, on-going payments from the government, a benign regulatory environment or below-market price feedstock, and on the negative side restrictions on the ability to take necessary restructuring measures or an onerous dividend distribution policy, are however included in the SCP.

Strength of Linkage

Status, Ownership and Control

The GRE's legal status may result in the government bearing the ultimate liability of the GRE's debt in the case of default. Ownership and control may reinforce this responsibility to support.

Four main factors considered in the assessment are:

- the legal status of the entity – ordinary commercial law or special legal status which may involve an automatic transfer of liabilities to the government in case of dissolution of the GRE;
- percentage and relative percentage of ownership compared to other shareholders;
- the level of control by the government of the operational, strategic and financing activities of the GRE;
- if the GRE is a government body (a ministry or a unitary department of a government), we would normally consider the entity as automatically equalised with the government.

Status, Ownership and Control Assessment Guidelines

Very strong	• Special legal status entity (with liability transfer implications) • Ordinary commercial law status entity. Close to fully government-owned entity whose operational and financing activities are controlled by the government
Strong	• Special status involving government's involvement in the case of liquidation, but without full liability transfer • Ordinary commercial law status, entity fully or majority government-owned (between 100% to 50%) with broad control by government, covering operational activities, financial performance, funding structure and investment plans
Moderate	• Ordinary commercial law status • The government has demonstrated influence over financial and operational activities, but less extensively that in the category above. Government is the largest single shareholder but could have less than 50% ownership
Weak	• Ordinary commercial law status • Government has a minority shareholding and may not be the largest shareholder. Government influence on the GRE's financial policies and operational activities is weak

Source: Fitch Ratings

For entities which do not have, in strict terms, a legal ownership (due to their structure or their status eg, foundations), Fitch will look primarily at the level of control by the government – and not at ownership.

Support Track Record

Evidence of the government providing financial support to the GRE, the regularity of this support and its importance in maintaining an adequate financial profile for the GRE are used to assess the future likelihood of government support.

The main factors considered in the assessment are:

- consistency of past support, for example in the form of capital injections, asset endowment, subsidies, reimbursement of losses, beneficial treatment from state-controlled financial institutions, partial debt guarantee or a special tax regime;
- whether the financial profile, notably the liquidity position, of the GRE leads to concerns about the ability to meet financial obligations in the short term;
- supportive nature of any regulatory or policy influence;
- presence of legal or political restrictions on the government supporting the GRE;
- whether the GRE has been singled out among other GREs as more (less) likely to receive exceptional support;

- in addition to a formal guarantee we also look at similar expressions of support that could be legally binding and enforceable;
- these additional expressions of support could be reflected in a higher assessment of the support track record rating factor in the criteria.

For financially strong GREs that have received little direct support because there was no need as the GRE's credit profile was sufficiently robust, the highest possible score is "Strong" provided there is an expectation of support in case of need as would be reflected by the assessments of the other key risk factors. Fitch considers that a GRE has a sufficiently robust credit profile when either its SCP or the financial factor considerations are 'bb'' or higher per sector specific criteria.

When there is an uncertainty about the availability of support however, notably due to material restrictions on the ability or willingness of the government to support the GRE, the score for these financially strong GREs would be either "Moderate" or "Weak", depending on the level of the uncertainty and of the restrictions.'

Instances where GREs have experienced a sustained weakening of their financial profile without any track record of consistent support are likely to result in the entity receiving a score of Moderate or less.

Support Track Record Assessment Guidelines

Very strong	• GRE has received consistent support (subsidies or capital injections to cover, in particular, losses or funding requirements of government-promoted investments, more than 25% of the GRE's debt being guaranteed but not to a level warranting equalisation) from the government to maintain a sufficiently strong financial profile. Continued support is expected. • Regulatory and/or policy influence is strongly supportive of financial stability/viability of the GRE. • No legal, regulatory or policy restrictions on government support.
Strong	• There is a track record of financial support but less consistent than in the category above, potentially leading to a temporary weakening of the financial profile of the GRE. This category also applies to financially strong GREs which have received little support in the past because there has been no need for it but for which we would expect support to be forthcoming in case of need. • Regulatory and/or policy influence is generally supportive of financial stability/viability of the GRE. • No or very limited legal, regulatory or policy restrictions on government support.
Moderate	• Financial support has been received but has been irregular, with the financial profile of the GRE remaining at a weaker level for an extended period of time. • Regulatory and/or policy influence is only moderately supportive of financial stability/viability of the GRE. • Some effective legal, regulatory or policy restrictions on government support exist but are unlikely to prevent timely intervention in exceptional circumstances.
Weak	• Limited history of financial support resulting in questionable financial viability for the GRE. • No regulatory or policy influence. • Significant effective legal, regulatory or policy restrictions on government support, potentially limiting the timeliness of the government's intervention.

Source: Fitch Ratings

Incentive to Support

Socio-Political Implications of a GRE's Default

The impact of a GRE's default on its activities and how those may have direct or indirect effects on the government's social and political environment are assessed. GREs may be obliged to continue to operate or provide the public service, even after default, therefore government support can range from merely ensuring continuation of activities while a substitute is found to actively seeking to prevent a default and ensure continued financial viability of the GRE. Economic functions which are dependent on regular access to financing (eg trading and import of food) would be most severely impacted by a default, whereas the default of operations based on pre-existing infrastructure requiring little additional funding above maintenance expenditure (a motorway or a bridge for example) are unlikely to have a significant socio-political impact.

The main factors considered in the assessment are:

- the presence, availability and costs of substitutes;
- the likely severity and duration of the impact of default on the GRE's operations;
- the social, political or economic repercussions of the interruption of the operations from the perspective of the GRE's government parent;
- except for certain public-mission GREs, the absence of consistent support from government letting the financial profile of a GRE deteriorate to an SCP equivalent to 'ccc' category or, when no SCP is derived, to such an extent that its financial structure becomes unsustainable or leads to recurring liquidity crises, is unlikely to be consistent with an assessment of Very Strong under this factor.

Socio-Political Implications of a GRE's Default Assessment Guidelines

Very strong	• Lack of any potential substitutes. • Financial default would materially endanger continued provision of essential public services, economic activity or sovereign power for a significant period, with likely grave political or economic repercussions or social unrest at the level of the government. • Failure would be seen as of great importance for the government with significant political implications.
Strong	• Difficult to substitute in the short to medium term, with transition process likely to lead to severe service disruption. • Financial default would temporarily endanger the continued provision of essential public services, economic activity, or key government activity. • Disruption would lead to significant political or economic repercussions at the level of the government but less than in the previous category.
Moderate	• Private-sector players or other GREs can provide substitutes with only minor or temporary disruption to the service offered by the GRE. • Financial default would not materially affect provision of service . • The services provided by the GRE are of moderate political or economic importance.
Weak	• Easy and immediate substitution by other GREs or private-sector operators. • Financial default of GRE would have limited or no impact on operations. • GRE has minimal political or economic importance.

Source: Fitch Ratings

Financial Implications of a GRE's Default

The impact of a default of the GRE is assessed to determine its likely implications for access to and the availability of future financing for the government and its other GREs.

- The main aspects considered are: whether domestic or international investors see the GRE as a proxy financing vehicle for its government;
- the level of funding the GRE receives from multilateral agencies – higher and more consistent levels of multilateral funding imply stronger government support to avoid any default and keep continued access to such facilities;
- the size of the borrowing of the GRE in the relevant markets, the reliance of the government and its other GREs on these same markets for their own financing , and the potential cost and access implications of one GRE defaulting on obligations;
- whether the GRE has been singled out among other GREs as more (less) likely to receive exceptional support; except for certain public-mission GREs, the absence of consistent support from government letting the financial profile of a GRE deteriorate to an SCP equivalent to the 'ccc' category or, when no SCP is derived, to such an extent that its

financial structure becomes unsustainable or leads to recurring liquidity crises, is unlikely to be consistent with an assessment of 'Very Strong' under this factor.

Financial Implications of a GRE's Default Assessment Guidelines

Very strong	• Functions as a proxy financing vehicle for its government. Borrowing capacity of the GRE's government parent or its other GREs in domestic or overseas markets would be significantly impaired.
Strong	• Default would have a significant impact on availability and cost of domestic or foreign financing options for the GRE's government parent and/or its other GREs.
Moderate	• Default would have a moderate impact on the availability and cost of finance by the government and other GREs.
Weak	• Minimal impact to either the availability or cost of domestic or international financing of other GREs or the government.

Source: Fitch Ratings

Single Factors Leading to Equalisation

The following single factors would in themselves lead to an equalisation of the ratings, unless the GRE's SCP is higher than the government's IDR:

- The government guaranteeing more than 75% of the adjusted debt of the GRE, as per Fitch criteria (including financial debt and capitalised leases but excluding debt of the GRE ultimately incurred with the government), with no concern that payments will not be timely or that the level of the guarantee might change;
- a legal status tantamount to a guarantee;
- or the GRE sustainably generating more than 10% of the government's revenue.

Entities equalised because of their revenue contribution can run into financial difficulties due to an elevated debt burden or liquidity problems unrelated to their underlying profit generation, in which case the government has clearly a very strong incentive to prevent a default to avoid disrupting the flow of revenues. They can also be impacted by adverse business developments, most notably a fall in commodity prices, which can lead to the revenue contribution to the government falling below the 10% threshold. However, Fitch expects governments to take a long-term view and to continue supporting these entities when the fall in revenue contribution is perceived to be temporary.

If the equalisation is based on the percentage of revenues contributed by the GRE, Fitch may however choose to apply a 'notching down' from the government rather than equalise if Fitch has concerns that the financial structure of the GRE is deteriorating to an unsustainably weak level.

Near Default Situations

Fitch views the principles of these criteria as relevant and valid in cases where a near-term default would not be considered a real possibility or an expectation. Where this would be the case, the considerations leading to a potential uplift of the SCP would become irrelevant and might not adequately reflect the near-term default risk. In such cases, the rating would be determined under the appropriate criteria, including the Public Sector, Revenue-Supported Entities Rating Criteria for the policy-driven entities, the Corporate Rating Criteria for the commercial-driven entities, the Non-Bank Financial Institution Rating Criteria for financial vehicles, the Infrastructure and Project Finance Rating Criteria for infrastructure and projects.

Short Term Ratings

For credits rated using Fitch's *Government-Related Entities Rating Criteria*, when an issuer's Long-Term IDRs are equalised with a government's, the Short-Term IDRs shall also be equalised. When an issuer's rating is derived on a top-down notching basis, the higher of the two Short-Term IDR options will apply, capped at the supporting government's Short-Term IDR level. When an issuer's rating is derived on a standalone basis or supported on a bottom-up notching basis, the Short-Term Rating option will be chosen using the rationale outlined by the respective criteria that is used for the SCP assessment: Public Sector, Revenue-Supported Entities Rating Criteria, Corporate Rating Criteria, Infrastructure and Project Finance Rating Criteria or Non-Bank Financial Institutions Rating Criteria.

Variations from Criteria

Fitch's criteria are designed to be used in conjunction with experienced analytical judgement 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 our 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 impact on the rating where appropriate.

A variation can be approved by a rating committee where the risk, feature, or other factors relevant to the assignment of a rating and the methodology applied to it are both 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.

Rating Sensitivity Analysis

The GRE ratings can be impacted by:

- changes in ratings of the government;
- changes in the standalone credit profile of the GRE;
- a reassessment of the likelihood of exceptional support in case of financial difficulties of the GRE.

Criteria Disclosure

In its rating reports and rating action commentaries, Fitch expects to disclose, as applicable:

- The selection of the Notching Approach (bottom-up or top-down) and a rationale for this;
- Any deviation from the standard notching as stipulated by the criteria. For example, Fitch could adopt a more conservative notching approach than suggested by the Notching Guideline table if there is a high likelihood that the cause of the GRE finding itself in financial difficulties coincides with a reduced ability of the government to support its GRE – ie if vulnerability to a deterioration in the government and the GRE standalone rating drivers is similar. Also, when looking at the single factors leading to equalisation, Fitch could decide to apply a notching down from the government rather than equalise the rating if the equalisation is based on the consideration of a percentage of government revenues contributed by the GRE and if Fitch has concerns that the financial structure of the GRE is deteriorating to an unsustainably weak level;
- The rationale for not constraining at the parent's IDR the IDR of a subsidiary of a GRE whose SCP is stronger than that of its GRE parent (for example where the parent has limited access to the cash of its subsidiary);

- The rationale for rating a GRE higher than its government;
- Any Variation from criteria.

Limitations

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

Data Sources

Key assumptions underlying these criteria are developed by the analysis of data on GREs, their vulnerability to credit risk and the availability of support from government parents. This includes the analysis of the key rating drivers and their performance over prolonged periods, analytical conclusions drawn from financial reports, public- and private-sector information, and analytical information received from issuers and other market participants. Assumptions are derived from experienced analytical judgement using such information. The information mentioned herein is also used when Fitch evaluates the relationship of a GRE to the government and assigns the scores as described in this document.

Information used to establish the Standalone Credit Profile is the information used in the application of the relevant master criteria (the Public Sector, Revenue-Supported Entities Rating Criteria for policy-driven entities) the Corporate Rating Criteria for corporate entities, the Non-Bank Financial Institution Rating Criteria for financial GREs and the Rating Criteria For Infrastructure and Project Finance for projects and infrastructure).

Appendix I

Guidelines for Local and Foreign-Currency Ratings' Notching

When notching down from the government rating, the same amount of notching down is normally applied to both the foreign-currency (FC) and local-currency (LC) rating. Thus, where the government's LC IDR is higher than its FC IDR and the notching-down is assessed at, say, one notch, the LC rating for the rated entity will be one notch below the government LC IDR, and one notch below the government FC IDR.

Using different starting points for notching down acknowledges that there can be a difference between a government's ability, and possibly willingness, to support a rated entity's FC rather than its LC obligations. This consideration does not apply to notch uplift considerations.

Limitations for LC and FC Notching

Fitch has identified a number of potential circumstances that require a notching approach that is different from the standard criteria outlined in this report. These circumstances include the ones listed below.

Additional Foreign-Exchange-Related Risks

A wider notching than indicated by the standard approach may be justified where, on consultation with the sovereign group, it is felt that certain foreign-exchange-related risks exist that are not already fully captured in the standard notching.

This may, for instance, be the case where the supported entity's FC obligations are sizeable in comparison with the government's FC resources, possibly limiting the government's ability to provide support in FC (beyond a possible already existing difference between a government's FC and LC rating).

Privileged Access to Foreign-Currency Funding

It is not inconceivable that GREs based in countries with a Country Ceiling above the FC IDR have good access to FC funding even if the government is in financial distress.

Where a rated entity generates a substantial portion of its earnings in FC and – crucially – the government parent would be unlikely or unable to prevent it from applying these funds to make payments to foreign creditors in a government debt crisis (if funds are held offshore, for example, which is the case for a number of state-owned oil companies), there may be a case for assigning an FC instrument rating above the government FC IDR. To the extent that this can be demonstrated (and provided that the GRE's standalone creditworthiness is stronger than that of the government), its FC rating could be rated above the government's FC IDR.

Absence of Government Rating

In cases where Fitch does not rate the government to which the GRE is linked, the agency would generally rate the GRE based on its standalone profile. If there is not enough information available to conduct a standalone credit analysis of the GRE, Fitch will be prevented from rating the GRE.

On the other hand, where Fitch has developed an internal view of a government's creditworthiness in LC and/or FC, without there being a public government rating in place, the criteria outlined in this report can typically be applied. Issuer research will contain clear language expressing the degree of linkage and the approach applied (i.e., notching down from the government assessment or notching up from the GRE standalone assessment).

Appendix II

Factor Assessment Summary Table

	Strength of linkage		Incentive to support	
	Status, ownership and control	**Support track record**	**Socio-political implications of GRE's default**	**Financial implications of GRE's default**
Very strong	• Special legal status entity (with liability transfer implications). • Ordinary commercial law status entity. Close to fully government-owned entity whose operational and financing activities are controlled by the government.	• GRE has received consistent support (subsidies or capital injections to cover, in particular, losses or funding requirements of government-promoted investments, more than 25% of the GRE's debt being guaranteed but not to a level warranting equalisation) from the government to maintain a sufficiently strong financial profile. Continued support is expected. • Regulatory and/or policy influence is strongly supportive of financial stability/viability of the GRE. • No legal, regulatory or policy restrictions on government support.	• Lack of any potential substitutes. • Financial default would materially endanger continued provision of essential public services, economic activity or sovereign power for a significant period, with likely grave political or economic repercussions or social unrest at the level of the government. • Failure would be seen as of great importance for the government with significant political implications.	• Functions as a proxy financing vehicle for its government. Borrowing capacity of the GRE's government parent or its other GREs in domestic or overseas markets would be significantly impaired.
Strong	• Special status involving government's involvement in the case of liquidation, but without full liability transfer. • Ordinary commercial law status, entity fully or majority government-owned (between 100% and 50%) with broad control by government, covering operational activities, financial performance, funding structure and investment plans.	• A track record of financial support but less consistent than in the category above, potentially leading to a temporary weakening of the financial profile of the GRE. This category also applies to financially strong GREs that have received little support in the past because there has been no need for it but for which we would expect support to be forthcoming in case of need. • Regulatory and/or policy influence is generally supportive of financial stability/viability of the GRE. • No or very limited legal, regulatory or policy restrictions on government support.	• Difficult to substitute in the short-to-medium term, with transition process likely to lead to severe service disruption. • Financial default would temporarily endanger the continued provision of essential public services, economic activity or key government activity. • Disruption would lead to significant political or economic repercussions at the level of the government but less than in the previous category.	• Default would have a significant impact on the availability and the cost of domestic or foreign financing options for the GRE's government parent and/or its other GREs.
Moderate	• Ordinary commercial law status. • The government has demonstrated influence over financial and operational activities, but less extensively that in the category above. The government is the largest single shareholder but could have less than 50% ownership.	• Financial support has been received but has been irregular, with the financial profile of the GRE remaining at a weaker level for an extended period of time. • Regulatory and/or policy influence is only moderately supportive of financial stability/viability of the GRE. • Some effective legal, regulatory or policy restrictions on government support exist but are unlikely to prevent timely intervention in exceptional circumstances.	• Private-sector players or other GREs can provide substitutes with only minor or temporary disruption to the service offered by the GRE. • Financial default would not materially affect provision of service. • The services provided by the GRE are only of moderate political or economic importance.	• Default would have a moderate impact on the availability and cost of finance by the government and other GREs.
Weak	• Ordinary commercial law status. • The government has a minority shareholding and may not be the largest shareholder. Government influence on the GRE's financial policies and operational activities is weak.	• Limited history of financial support resulting in questionable financial viability for the GRE. • No regulatory or policy influence. • Significant effective legal, regulatory or policy restrictions on government support, potentially limiting the timeliness of the government's intervention.	• Easy and immediate substitution by other GREs or private-sector operators. • Financial default of GRE would have limited or no impact on operations. • GRE has minimal political or economic importance.	• Minimal impact to either the availability or cost of domestic or international financing of other GREs or the government.

Source: Fitch Ratings

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