



Government Related Entities Rating Methodology

Sovereign and Public Sector /
Financial Institutions / Corporates

13 July 2023

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1. Introduction

This report sets out our methodology for assigning local and foreign currency issuer credit ratings to Government Related Entities (GREs) and their debt obligations globally¹. The criteria set out in this methodology may be applied in conjunction with other relevant sector-specific methodologies as appropriate.

In assigning a GRE rating, we believe that a 'segmentation-approach', i.e., a qualitative, principles-based approach to determining a GRE rating is best suited due to the wide variety of entities, varying jurisdictions, and the resulting different relationships they may have with their respective public sponsors. Our approach is based on three scorecards highlighting the relative importance of key rating drivers and considering the relationship and level of integration between the GRE and its public sponsor.

1.1 Definitions

➤ Government Related Entity

Under our GRE rating methodology, a GRE is defined as an entity whose credit quality is tied to that of a public sponsor. To deem whether this is the case, we will consider, for instance, whether the entity: i) is publicly owned with a dominant share; ii) is sufficiently controlled by a public sponsor; iii) is instrumental to a public sponsor's implementation of policy objectives; iv) benefits from established and substantial financial ties to a public sponsor, for instance via liability support mechanisms or direct and regular transfers to underpin its activities; and/or v) is likely to receive support from a public sponsor in the event of financial distress. For us to consider a GRE status, the entity typically conforms to several of these indications. We will typically not consider an entity to be a GRE if only one of these situations apply to it though exceptions may exist. The analytical elements considered to make this judgment are outlined throughout this methodology.

➤ Public sponsor

Throughout this methodology, we refer to the 'public sponsor' as a national, regional, or local government to whom the credit quality of the GRE is directly or indirectly via another public entity tied. Typically, we can identify the public sponsor through ownership stakes, funding flows, the provision of implicit or explicit liability support and/or other tangible financial or operational control mechanisms. There may be instances where the GRE has multiple public sponsors. In such cases, we identify the public sponsor which is most likely to support the GRE in the event of financial distress and/or the dominant public sponsor by analysing the strength of the links between the GRE and its respective sponsors, based on ownership stakes, economic or voting control over the GRE, funding contributions or similar factors. If we deem one public sponsor to have more extensive operational or financial ties and/or to be more likely to provide support than the others, we will use that sponsor's credit quality as a rating driver. In cases where there is no clear dominant public sponsor, we can use a blended credit quality assessment of the public sponsors using a weighted average. In some cases, Scope Ratings may not have a public rating on sponsoring governments. In those cases, we can use internal credit assessments for the public sponsors.

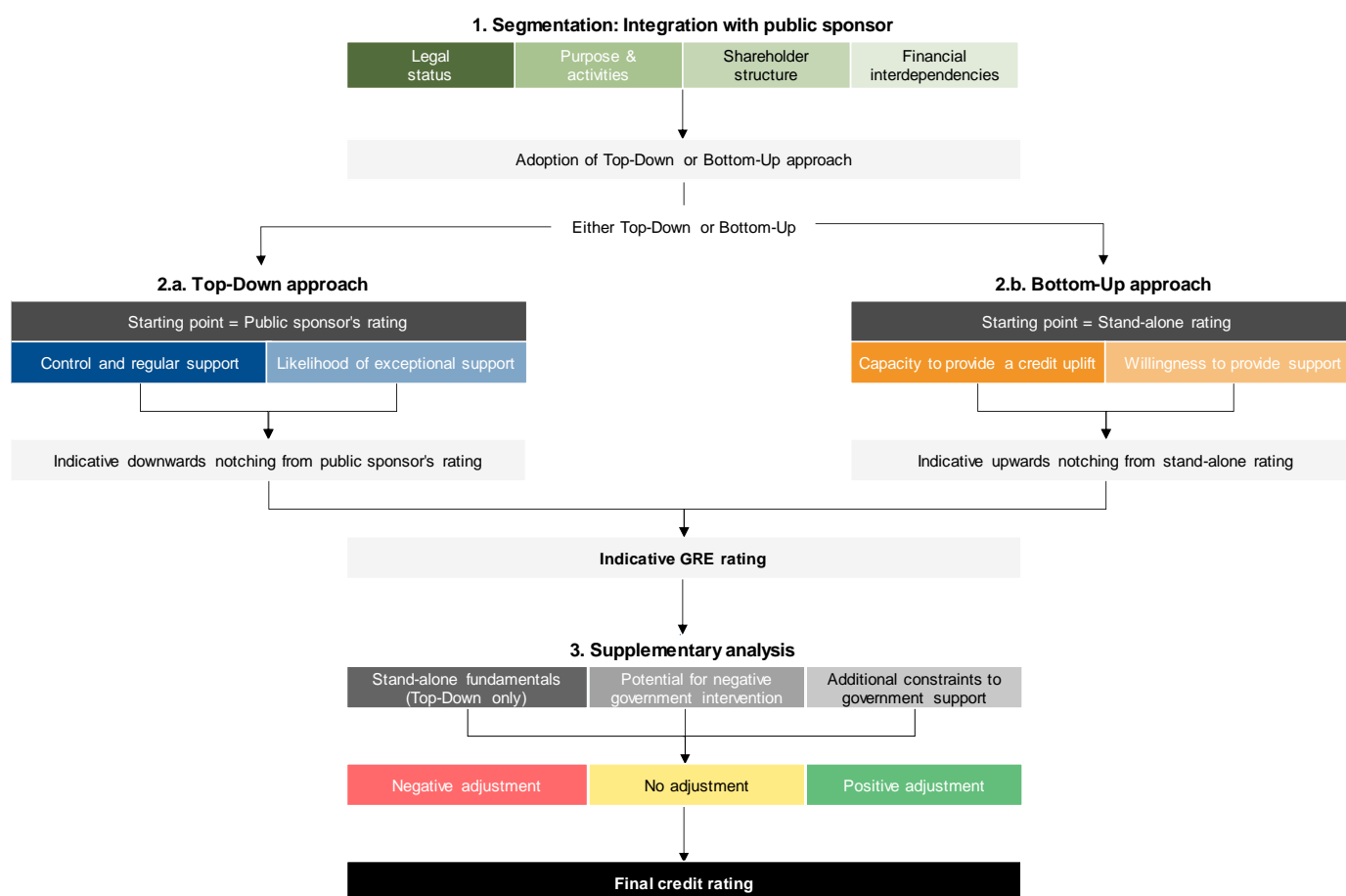
1.2 Scope's 'Segmentation approach'

Our approach to rating GREs is split into three fundamental steps. As a first step, we assess the GRE's level of integration with its public sponsor to determine the primary driver of the GRE's rating (either its stand-alone credit quality or that of its public sponsor). Based on this first segmentation, we then adopt either the 'Top-Down' approach that takes the related public sponsor's rating as the starting point or the 'Bottom-Up' approach that takes the GRE's stand-alone credit quality as a starting point under the second step. Where appropriate, in a third step, we assess the risk of negative interventions by the public sponsor or additional constraints affecting the creditworthiness of the GRE under both approaches. At this stage, the Top-Down approach is also complemented with an assessment of the GRE's stand-alone fundamentals (where relevant²), which can have either positive or negative rating implications.

¹ The applicability of this methodology to the higher education sector is limited to European institutions.

² Some GREs are so closely integrated with their respective sponsors that an assessment of their stand-alone fundamentals provides no additional insight on their creditworthiness.

Figure 1. Overview of Scope’s approach to assigning ratings to GREs



Source: Scope Ratings GmbH

Step 1: Level of integration with the public sponsor

We analyse the relationship between the GRE and the public sponsor in the context of a continuum of relationships between the public sponsor and the organisations it relies on to achieve its objectives. At one end of the continuum are entities very closely integrated with or under the control of their public sponsors, with some GREs so closely integrated into government finances that they can be rated at the same level as the public sponsor. At the other end of this scale, GREs subject to insolvency laws, operating as commercial, profit-maximising entities or that are highly likely to be privatised, are less likely to receive support from a public sponsor.

We assess various factors to determine the level of integration of a GRE with the public sponsor, including the GRE’s: i) *Legal status*; ii) *Purpose & activities*; iii) *Shareholder structure*; and iv) *Financial interdependencies*. Based on this analysis, we adopt either the Top-Down or Bottom-Up approach. Details are provided in [Chapter 3](#).

Step 2.a: Top-Down Approach

Provided that the GRE benefits from a sufficiently high level of integration with the public sponsor, we apply the Top-Down approach that takes the public sponsor’s rating as the starting point and then either equalise the rating or negatively adjust it by up to three notches. The extent of the downward notching is based on our assessment of: i) *Control and regular support*; and ii) *Likelihood of exceptional support*. Details are provided in [Chapter 4](#).

Step 2.b: Bottom-Up Approach

In case of a more limited integration between the GRE and the public sponsor, we apply the Bottom-Up approach. This approach takes the GRE's stand-alone credit quality – determined by the relevant sector-specific methodologies – as a starting point, and then assesses the potential rating uplift by up to four notches for most cases. The extent of the upward notching is based on the public sponsor's: i) *Capacity to provide a credit uplift*, defined as the differential between the public sponsor and the GRE's stand-alone credit quality, and ii) *Willingness to provide support* to the GRE. Details are provided in [Chapter 5](#).

Step 3: Supplementary Analysis

The supplementary analysis considers the potential risk for negative interventions by the public sponsor or additional constraints affecting the creditworthiness of the GRE under both approaches. In addition, this step captures the fundamentals of the GRE under the Top-Down approach and have both credit-positive and negative implications for the rating. Details are provided in [Chapter 6](#).

2. Integration with the public sponsor

2.1 Overview

To determine the level of integration of a GRE with its public sponsor, we structure our analysis around four important analytical components: i) *Legal status*, ii) *Purpose & activities*; iii) *Shareholder structure*; and iv) *Financial interdependencies*.

For each component we assess the strength of the relationship of the GRE with its public sponsor. We use a scoring system assigning 100 to 'High', 50 to 'Medium' and 1 to 'Limited'³. Qualitative assessment guidance tables, which provide an overview of the rationales that underpin each assessment for each analytical component, are presented in the following sections.

The integration score, ranging from a minimum of 1 to a maximum 100, is calculated as a weighted average⁴ of these assessments which determines whether the Top-Down (integration score of above 66.7) or Bottom-Up approach (score of below 33.3) is more appropriate. In cases where the integration score is between 33.3 and 66.7 points, both the Top-Down and Bottom-Up approaches are possible. In such instances, we will look at the extent to which control, regular support, and the likelihood of exceptional support (as detailed in [Chapter 4.2](#)) suggest a strong (weak) interlinkage with the public sponsor.

In case of a statutory guarantee or explicit guarantee, or laws to similar effect covering all of the GRE's debt obligations, and where the guarantee mechanism is sufficiently robust and permanent, we will align the GRE's rating with that of the public sponsor and may forgo our assessments that determine the level of integration of a GRE with its public sponsor under this step. The supplementary analysis, as outlined in [Chapter 6](#), can still impact the final rating decision. Details are provided in [Chapter 8.1](#).

Figure 2. Assessment of the GRE's integration with the public sponsor - Qualitative Scorecard 1 (QS1)

Analytical component	Weight	Assessments			
		Limited (1)	Medium (50)	High (100)	Not applicable
Legal status	40%	○	○	○	○
Purpose & activities	20%	○	○	○	○
Shareholder structure	20%	○	○	○	○
Financial interdependencies	20%	○	○	○	○

Integration score		-		
Indicative approach	Score	$1 \leq x < 33.3$	$33.3 \leq x \leq 66.7$	$66.7 < x \leq 100$
	Approach	Bottom-up	Top-down or Bottom-up	Top-down
Approach adopted				

Source: Scope Ratings GmbH

2.2 Analytical considerations

➤ Legal status (40%)

We view the legal status of a GRE as a key indicator for the assessment of its level of integration with its public sponsor. The more the legal status of the GRE resembles a government agency, ministerial department or an entity created under public law, the closer the relationship between the GRE and its public sponsor. At the other extreme, we assess the link between a GRE and its

³ In cases where the analytical component does not apply for the GRE, we will not assess that component (see 'Not applicable' on the scorecard). For example, some GREs do not have formal ownership structures which would justify deactivating the 'Shareholder structure' component. In such cases, the weighted average score will be calculated based on the residual weights of the remaining components.

⁴ In cases where a component is assessed as 'Not applicable' the denominator of the weighted average is adjusted by the weight of that component, resulting to higher weights for the remaining assessments. For example, if *Shareholder structure* (20%) is assessed as 'Not applicable', the weight of *Legal status* increases to 50% while those of *Purpose & activities* and *Financial interdependencies* are increased to 25% each.

respective public sponsor as more limited in cases of entities operating under private law, resembling ordinary corporations or financial institutions.

To assess the legal status of the GRE, we examine, among others: i) the legal form and the extent to which regulations concerning insolvency and bankruptcy proceedings apply to the GRE; ii) the extent to which the legal form, in and of itself, entails the public sponsor's involvement and/or strong dependence on the public sponsor; and iii) legal frameworks for the GRE, including EU law, national and local laws. Crucially, our assessment considers whether these elements result in implicit liability responsibilities for the sponsor if, for example, the GRE's assets and liabilities would have to be transferred to the sponsor or another institution with a similar legal status in the event of the GRE being liquidated.

This assessment is conducted as a point-in-time analysis covering existing laws and institutions. Changes, including but not limited to changes in existing legislation governing the GRE, the introduction of new legislation affecting the GRE such as a privatisation programme or a more active competition policy programme, as well as court decisions affecting such laws with a material effect on the relation of the GRE with the public sponsor, would potentially change our assessment of the level of integration.

We believe that, depending on the jurisdiction, a certain degree of judgement is necessary to assess a government's ability to change legislation. In forming our opinion, we consider, among other criteria, the recent record of legal status changes, the public sponsor's strategy of mandating GREs in fulfilling its policy objectives, as well as the form and strength of the government's involvement. For example, amendments to a GRE's statutes and policies that enhance (weaken) its importance to the public sponsor would reflect stronger (weaker) integration.

This analytical component receives the highest weight (40%), reflecting our view that a GRE's legal status provides a very strong indication of its relationship with the public sponsor.

Assessment	Limited (1)	Medium (50)	High (100)
Rationale	The GRE has an ordinary private legal form.	The GRE has a legal form that is distinct from that of ordinary private entities and entails some government oversight (e.g., a special charter).	The GRE has a public legal form or special legal status that implies liability responsibilities for the public sponsor in the event of default or liquidation of the GRE and/or is not subject to private insolvency proceedings.

Source: Scope Ratings GmbH

➤ Purpose & activities (20%)

We view the purpose and activities of a GRE as another important indicator of the level of integration between a GRE and its public sponsor. The more important the GRE's role is in fulfilling public tasks or services on behalf of the public sponsor, the stronger the level of integration. We view GREs that provide a service which is backed by a defined public responsibility or even enshrined in the sovereign's constitution as essential, and thus a good indication of a very strong integration with the public sponsor. We consider whether the GRE operates essentially on behalf of the public sponsor with the main aim of providing a key public service. However, we are mindful that many traditional utilities (for example, in the energy, electricity or transport sector), which provide a public service, operate in semi-competitive business environments. We therefore also consider if the entity operates with a profit-maximising or non-profit-maximising motive and the share of the GRE's expenditure which is (un-)related to the GRE's sphere of responsibility.

Assessment	Limited (1)	Medium (50)	High (100)
Rationale	The GRE operates with a profit-maximising motive and/or mostly in a competitive business environment.	The GRE provides some public goods or services which are not its primary activity and/or the GRE operates in a competitive business environment with a not-for-profit-maximising motive.	The GRE provides essential public services on behalf of the public sponsor that are instrumental to the implementation of political objectives with a non-profit-maximising motive.

Source: Scope Ratings GmbH

➤ Shareholder structure (20%)

GREs are often partially or wholly owned by one or more sponsor(s). High levels of public ownership are usually associated with a stronger link with the public sponsor. To determine the level of integration, we review the ownership structure of the GRE. In this

context, the question of ownership also extends to ownership rights to the GRE's assets. We consider potential privatisation plans or related strategies of the respective sectors in which the GRE operates. A 100% publicly owned GRE would tend to have a stronger link with the public sponsor than a GRE that is mostly privately owned.

In addition, we assess the complexity of the ownership structure. Direct ownership structures with a clear and straightforward delineation of ownership will be assessed as having a stronger level of integration than complex and indirect ownership structures, which often weigh on the transparency of the relationship with the public sponsor. When a GRE is owned by more than one sponsor, our general approach is to assess the support based on the owner with the dominant share which is usually the public sponsor most likely to provide support to the GRE. In cases where more than two public sponsors have similar or significant shareholdings, we assess the probability of support depending on the shareholder structure. This assessment would be conducted based on the largest (dominant) shareholder. In cases with several owners with minority controlling stakes, we would consider whether there are agreements that legally defines them as one shareholder group in making our assessment.

Assessment	Limited (1)	Medium (50)	High (100)
Rationale	The public sponsor is a minority shareholder or full private ownership.	The public sponsor is a dominant (at least 20%) shareholder with ownership that is split with private shareholders.	The public sponsor is a majority shareholder with at least a 51% share.

Source: Scope Ratings GmbH

➤ Financial interdependencies (20%)

GREs can have high levels of financial interdependencies with their public sponsor because they receive substantial public funding to support their activities. In this case, the capacity of the entity to generate income is dependent on the sponsor's financial capacity, resulting in a strong link between the credit quality of the GRE and its sponsor. We analyse the GRE's income structure and assess the degree of reliance on public sector contributions. Our assessment also considers the regularity and predictability of flows. Material, regular, direct government contributions in the form of grant funding, fees or similar funding flows provide a good indication of the integration between the GRE its public sponsor.

Conversely, some GREs, such as development banks, promotional institutions or specialised public lenders, do not rely on funding from their public sponsor but may instead provide direct funding to the sponsor and/or its related public entities, and/or indirect funding support for its policy priorities. In addition, GREs can contribute significantly to the public sponsor's revenue base, depending on the account and reporting practices of the public sponsor and the GRE itself. This can include dividends paid to the government as a shareholder or tax contributions. GREs that contribute significantly to their public sponsor's revenue base, indicate a close integration with their public sponsor. In such cases, we analyse the degree to which the GRE provides funding support to the public sponsor.

Assessment	Limited (1)	Medium (50)	High (100)
Rationale	The GRE does not rely on contributions from its public sponsor to support its activities, finance investment or repay debt; government contributions represent on a three-year average less than 5% of revenue; or the GRE does not provide meaningful direct or indirect funding support for the public sponsor, its related public entities, or its policy priorities.	The GRE receives material revenues from its public sponsor to support its activities or finance investments; government contributions represent on a 3-year average 5-10% of revenue; or the GRE provides indirect funding support for the public sponsor's policies.	The GRE receives regular, direct, and substantial public contributions to balance its operating accounts or finance investment; government contributions represent more than 10% of revenue on a 3-year average; or the GRE provides meaningful direct funding to the public sponsor or its related public entities.

Source: Scope Ratings GmbH

3. Top-Down Approach

3.1 Overview

Provided that the GRE benefits from a sufficiently high level of integration with the public sponsor (integration score of at least 33.3), we may apply the Top-Down approach which takes Scope's public sponsor's rating as the starting point and then negatively adjusts it by up to three notches in most cases. The extent of the downward notching is based on the assessment of two pillars: i) *Control and regular support* and ii) *Likelihood of exceptional support*. Each pillar comprises three analytical components which are assessed as 'High' (score of 100), 'Medium' (50) or 'Limited' (1). Qualitative assessment guidance tables, which provide an overview of the rationales that underpin each assessment for each analytical component, are presented in the following sections.

A weighted average score is calculated for each analytical pillar which determines a pillar assessment (as depicted in the table below)⁵. The higher of the two pillar assessments is chosen and is then used to map an indicative notching range. This reflects our view that government intervention in case of need ultimately drives our assessment of government support⁶.

In case of a statutory guarantee or explicit guarantee, or laws to similar effect covering all, or most of the GRE's debt obligations, we will align the GRE's rating with that of the public sponsor (*Equalisation factor*). In cases where the guarantee mechanism is sufficiently robust and deemed to be permanent, we may choose to forgo our assessments under the Top-Down approach. Details are provided in [Chapter 8.1](#).

Pillar score	$1 \leq x < 33.3$	$33.3 \leq x \leq 66.7$	$66.7 < x \leq 100$
Pillar assessment	Limited	Medium	High

Source: Scope Ratings GmbH

In case of need, we may apply an additional degree of notching to account for special circumstances related to the GRE's characteristics and operating environment.

Figure 3. Overview of the 'Top-Down' approach – Qualitative Scorecard 2 (QS2)

Analytical pillar	Analytical component	Weights	Assessments				Pillar assessment
			Limited (1)	Medium (50)	High (100)	Not applicable	
Control and regular support	Strategic and operational decision making	33%	○	○	○	○	-
	Key personnel, governing & oversight bodies	33%	○	○	○	○	
	Ordinary financial support	33%	○	○	○	○	
Likelihood of exceptional support	Strategic importance	33%	○	○	○	○	-
	Substitution difficulty	33%	○	○	○	○	
	Default implications	33%	○	○	○	○	

Overall assessments	Notches
Equalisation	0
High	0-1
Medium	1-2
Limited	2-3

Equalisation factor	-
Overall assessment	-
Indicative notching	-
Additional adjustment	-
Final indicative notching	-

Source: Scope Ratings GmbH

3.2 Analytical considerations

3.2.1 Control and regular support

This pillar is assessed by analysing the public sponsor's involvement in: i) *Strategic and operational decision making*; ii) *Key personnel, governing and oversight bodies*; and iii) *Ordinary financial support*. For each analytical component, we assess whether

⁵ In cases where the analytical component does not apply for the GRE, we will not assess that component (see 'Not applicable' on the scorecard). In such cases, the weighted average score is calculated based on the residual weights of the remaining components.

⁶ For example, relatively independent GREs, assessed with a 'Medium' or 'Limited' degree of regular support, can still benefit from a 'High' likelihood of exceptional support, and should therefore be closely aligned with the public sponsor's rating.

the degree of control and regular support is 'High' (score of 100), 'Medium' (50) or 'Limited' (1). The average of the three assessments determines the indicative classification of this pillar.

➤ Strategic and operational decision making

We view government control as one of the most important categories to determine the rating differentiation between the GRE and its public sponsor. Usually, the tighter the control exercised by the public sponsor over the GRE's decision-making process, the stronger the integration.

Key for determining a public sponsor's control is not the willingness or execution of control, but rather the public sponsor's ability to control the GRE. This component considers the public sponsor's ability to i) alter, amend, or otherwise control a GRE's mission, mandate, or strategy, ii) establish financial goals, limit borrowing, or define investment policies; and/or iii) set operating policies. This includes the financial supervision, such as the approval of accounts or borrowing and budget reporting, official audits, interventions of the public sponsor in tariff-setting policies, control of human resources (e.g., if the GRE's personnel are civil servants), and other important decision-making processes. For instance, we evaluate the legal and regulatory framework surrounding the GRE and its relationship with the public sponsor. This includes examining the extent to which the GRE operates under specific laws, regulations, or governmental oversight. A large number of public sponsors, or no sponsor with dominant voting rights can constrain the public sponsor's ability to control the GRE's decision-making process.

Assessment	Limited (1)	Medium (50)	High (100)
Rationale	The public sponsor has little to no influence on the GRE's mission, strategy, business plans or its operational and financial activities.	The public sponsor has a strong but no dominant influence on the GRE's mission, strategy, mandate, and business plans and/or its operational and financial activities are broadly defined by the public sponsor.	The GRE's mission, strategy as well as its operational and financial activities are driven by the public sponsor, defined by public law or resolutions and/or strictly controlled by the public sponsor.

Source: Scope Ratings GmbH

➤ Key personnel, governing and oversight bodies

A public sponsor can exert control on a GRE through key personnel, governance structures and arrangements as well as the main governing bodies. Such mechanisms can be embedded in laws or outlined through the GRE's internal rules and guidelines which require the presence of government representatives in the governing or oversight bodies. The presence of government representatives in these bodies allows the public sponsor to have a direct say in decision-making processes and strategic directions. The public sponsor may also have the right to appoint or dismiss key personnel. The greater the public sponsor's ability to influence a GRE's governance, the stronger the link between the credit quality of both entities.

Assessment	Limited (1)	Medium (50)	High (100)
Rationale	The public sponsor has little to no influence in the GRE's governing and oversight bodies and/or the entity can independently select and dismiss key personnel.	The public sponsor has some influence in the GRE's governing and oversight bodies and/or the entity can independently select and dismiss key personnel, subject to approval from the public sponsor.	The public sponsor exercises tight control over the GRE's governing and oversight bodies and/or the public sponsor has the right to nominate and dismiss key personnel.

Source: Scope Ratings GmbH

➤ Ordinary financial support

We also assess the degree to which the GRE benefits from ordinary financial support from the public sponsor. This can be in the form of direct funding support (e.g., credit or liquidity lines), regular and predictable transfers, dividend policies (e.g., the public sponsor can forgo its dividends), capital injections, defined support agreements such as credit lines, or a special, preferential tax regime. We also consider more indirect forms of financial support such as holdings in strategic national companies to support the GRE's revenue stability or protective statutory guidelines safeguarding the GRE's stand-alone viability. When assessing ordinary

financial support, we also consider the public sponsor's record of providing support. A good record of timely, consistent financial support reflects strong integration and entails a stronger alignment of the GRE's credit quality with that of its public sponsor.

Assessment	Limited (1)	Medium (50)	High (100)
Rationale	Material policy or regulatory restrictions constrain the public sponsor in providing support to the GRE (including state aid regulations) and/or irregular, event-driven record of financial support to the GRE.	Record of ongoing financial support (for example, in form of a no-dividend policy or special tax regime, supportive revenue arrangements, direct contributions via transfers or defined support agreements such as credit lines or partial debt guarantees) and/or support has not been required but is expected if needed.	The GRE benefits from extensive support mechanisms that are embedded in legislative frameworks and/or good record of timely, consistent financial support.

Source: Scope Ratings GmbH

3.2.2 Likelihood of exceptional support

This pillar is assessed by analysing the GRE's: i) *Strategic importance*; ii) *Substitution difficulty*; and iii) the (hypothetical) *Default Implications* for the public sponsor. For each analytical component, we assess whether the likelihood of exceptional support is 'High' (score of 100), 'Medium' (50) or 'Limited' (1). The average of the three assessments determines the indicative classification of this pillar.

➤ Strategic importance

We view a GRE's strategic importance to its public sponsor as a critical criterion for determining the likelihood of exceptional support. A GRE can be important to the public sponsor because it makes important contributions to key national or subnational policies, provides an important public service, or ensures the proper functioning of a critical economic sector. Strategic importance can be reflected in the number of employees, GRE revenues relative to the public sponsor's revenue base, share in national exports, tax contributions, or production of energy for the region or country. A GRE's strategic importance can vary over time. Sectors are classified as strategic or non-strategic by the public sponsor, based on, among others, national security, and development policies and the supporting public sponsor's (dis)investment policy or allocation of funds to different sectors.

Assessment	Limited (1)	Medium (50)	High (100)
Rationale	The GRE's contributions to policy objectives are deemed to be of low importance.	The GRE's activities make important contributions to the public sponsor's core policy objectives.	The GRE's activities make critical contributions to the public sponsor's major policy objectives and/or the entity is a preeminent GRE.

Source: Scope Ratings GmbH

➤ Substitution difficulty

We view the difficulty with which a GRE's provision of a good or service can be substituted as a critical criterion for determining the likelihood of exceptional support. This assessment captures the degree to which there are other entities operating in the sector and/or providing similar goods and services as the GRE. In making our assessment, we assess the extent to which a hypothetical substitution of the entity entails disruption to its service/goods offering. We also consider the intrinsic qualities of the GRE which can impact its substitution difficulty including the scope of its operations, expertise or the quality of its services.

Assessment	Limited (1)	Medium (50)	High (100)
Rationale	Private or public actors provide similar service/goods with little to no service disruption in case of substitution.	Other private or public entities exist which provide similar service/goods though with some disruption in case of substitution.	Lack of any equivalent private or public substitutes. Substitution would entail severe disruption/change of service provided and/or is infeasible.

Source: Scope Ratings GmbH

➤ Default implications

We view a GRE's default implications as a critical criterion for determining the likelihood of exceptional support. We consider in this assessment the consequences of a hypothetical default of the GRE for the regional or national economy and the public sponsor itself. This includes not only socio-economic or financial repercussions for the sponsor but also reputational and political costs. We assess whether the potential default of the GRE would have a localised impact or entail spill over effects to other entities or sectors, including other GREs or the public sponsor itself. Finally, depending on the activity of the GRE, the public sponsor may require it to continue its operations even in cases of default. If the GRE's activities are not contingent on its ability to access funding, there may be less incentive for the public sponsor to provide exceptional support to ensure financial viability.

Assessment	Limited (1)	Medium (50)	High (100)
Rationale	A hypothetical default would entail limited to no socio-economic, reputational, or financial costs for the public sponsor.	A hypothetical default would entail moderate socio-economic, reputational, or financial costs for the public sponsor.	A hypothetical default would entail material socio-economic, reputational, or financial costs for the public sponsor. Such a scenario is likely to weigh on the sponsor's credit quality and/or spill over to other major GREs.

Source: Scope Ratings GmbH








4. Bottom-Up Approach

4.1 Overview

In case of a more limited integration between the GRE and its public sponsor (integration score up to 66.7), we may apply the Bottom-Up approach which starts with the assessment of the GRE's stand-alone credit quality, and then positively adjusts this indicative rating by up to four notches in most cases. The extent of the upward notching is based on our assessment of the public sponsor's: i) *Capacity to provide a credit uplift*, defined as the rating differential between the public sponsor and the GRE's standalone credit quality, and ii) *Willingness to provide support*. Each analytical component is assessed as 'High', 'Medium' or 'Limited'. Both assessments are then mapped to an indicative credit uplift.

In case of a statutory guarantee or explicit guarantee, or laws to similar effect covering all, or most of the GRE's debt obligations, we will align the GRE's rating with that of the public sponsor (*Equalisation factor*). In cases where the guarantee mechanism is sufficiently robust and deemed to be permanent, we may choose to forgo our assessments under the Bottom-Up approach. Details are provided in [Chapter 8.1](#).

Figure 4. Overview of the 'Bottom-Up' approach – Qualitative Scorecard 3 (QS3)

Willingness to support	Capacity to provide a credit uplift - Rating differential		
	≥ 4 notch differential	3 notch differential	≤ 2 notch differential
 High	 High	 Medium	 Limited
 High	≤+4 notches	≤+3 notches	≤+2 notches*
 Medium	≤+3 notches	≤+2 notches	≤+1 notch*
 Limited	≤+2 notches	≤+1 notch	0 notches
Equalisation factor			
Indicative notching			
Additional adjustment			
Final indicative notching			

* The notching may be capped by the public sponsor's rating.
Source: Scope Ratings GmbH

4.2 Analytical considerations

4.2.1 Capacity to provide a credit uplift

A public sponsor could have a strong commitment, moral obligation, or willingness to support a GRE, but be financially constrained in its capacity to provide support on a timely basis. We define the public sponsor's maximum capacity to provide a credit uplift to a GRE as the rating-differential between the public sponsor's credit quality and the stand-alone credit quality of the GRE. This first indicative assessment is then refined to account for several factors, including the share and composition of the public owners. The higher (lower) this differential the higher (lower) the (in principle) capacity of a public sponsor to provide a rating-notch uplift to the GRE. The indicative credit uplift is indicatively capped by the public sponsor's credit quality⁷.

4.2.2 Willingness to provide support

Our assessment of the public sponsor's willingness to provide support is defined as the likelihood of providing exceptional support and rests on: i) *Control*; ii) *Strategic importance* to the public sponsor; iii) *Substitution difficulty* of the GRE; and iv) hypothetical *Default implications* (all defined in Chapter 4.2). We analyse the government's willingness to support a GRE amongst other aspects as demonstrated by the government's policies, record of past interventions, level of supervision and involvement in daily operations. The more systemic the GRE, the greater the ability of public sponsor to control the entity and/or the higher the potential costs of its default for the public sponsor, the higher we would assess the public sponsor's willingness to provide support to the GRE.

Assessment	Limited	Medium	High
Rationale	Limited government control; Non-strategic sector/public service; Private players operate in the market; Limited default implications; and/or constrained policy transparency and predictability	Some operational and regulatory government control; Somewhat strategic sector/public service; Prospects of alternative players entering the market; and/or some default implications	High government control; Strategic sector/public service, systemic relevance; Highly regulated market; Difficult to replace and no alternatives in the market; and/or high default implications

Source: Scope Ratings GmbH

5. Supplementary analysis

In a final step, we perform a supplementary analysis. Under both the Top-Down and Bottom-Up approaches, we consider the potential risk for negative interventions by the public sponsor or additional constraints affecting the creditworthiness of the GRE. These refer to additional economic, financial, legal, or political constraints, which are limiting the public sponsor's capacity to provide support, as well as government interventions or legal changes which affect the creditworthiness of a GRE or the sector in which the rated GRE operates⁸. We acknowledge that the public sponsor's *actual* ability to provide support to a GRE may be constrained by additional considerations, including the macro-economic environment, the number of entities relying on public sponsor support, possible off-balance sheet liabilities, legal or policy barriers such as anti-trust or competition laws as is the case in the European Union⁹.

In addition, under the Top-Down approach, we include an assessment of the fundamentals of the GRE, including its business and financial risk profiles as well as its commercial viability. To determine whether such analysis is needed, we will assess whether fundamental elements of the relevant sector-specific methodologies provide additional insight which could have an impact on the GRE's creditworthiness. The supplementary analysis can include a peer group comparison and have credit-positive or credit-negative implications for the final rating.

⁷ For example, if the rating differential between the GRE's and the public sponsor is equal to one notch (Capacity to provide a credit uplift assessed as 'Limited') and the willing to provide support is assessed as 'High', a maximum indicative credit uplift of one notch would apply.

⁸ For instance, this could refer to special taxes, dividend payments or cash stripping. Depending on circumstances, this could also refer to the government's intervention to force a merger within a GRE sector.

⁹ Legal or policy barriers, such as the European Union (EU) state aid rules affect the ability of the government to provide support. However, despite the general prohibition of state aid, the EU Treaty leaves room for several policy objectives for which state aid can be granted. In practice, EU member states do provide regular and exceptional financial support for certain GREs, referring, for example, to all active aid measures to industries qualifying for exemption under the so-called General Block Exemption Regulation. In this context, Scope considers the likelihood that the government would obey these barriers, should they exist.

6. Inclusion of Environmental, Social and Governance (ESG) factors

ESG considerations can be material to a GRE's credit quality and are captured by our rating approach via multiple factors. First, a GRE's mandate can serve to support a public sponsor's environmental or social policy objectives. We would capture this in our assessment of the GRE's *Purpose & activities* (QS1) as well as under our assessment of the entity's 'Strategic importance' to the sponsor (QS2). Similarly, we would capture the social consequences of a disruption in the GRE's activities under our assessment of 'Default implications' (QS2 and QS3). Governance considerations are captured in our assessment of a GRE's *Shareholder structure* (QS1) and of the public sponsor's ability to exert control and oversight over a GRE's strategic and operational decision making as well as its key personnel, governing and oversight bodies (QS2). In addition, our assessment of the public sponsor's credit quality includes an appraisal of ESG risks as detailed in our [Sovereign Rating Methodology](#) or [Sub-sovereigns Rating Methodology](#). Finally, ESG considerations relating to the GRE's stand-alone fundamentals are captured via the ESG-related elements under the respective sector-specific methodologies.

7. Additional considerations

7.1 Equalisation factor

The existence of individual guarantee/liability support mechanisms has a major impact on the credit quality of a GRE versus that of the respective public sponsor. In cases where the GRE benefits from a statutory guarantee, explicit guarantee or laws to similar effect covering all, or most of its debt obligations, we follow the equalisation approach and align the GRE's rating with that of its public sponsor.

Equalisation of a GRE's rating with that of its public sponsor is possible in case of an explicit guarantee with the following characteristics: unconditional, unlimited, direct, and irrevocable. Such guarantees are often included in the GRE's statutes or national or regional laws. Usually, an entity with a statutory guarantee benefits from full integration with the public sponsor, which is typically reflected in a special public legal status, a socially sensitive or strategically important public mandate or tight operational or financial control exercised by the public sponsor.

We also view joint and several guarantees as special forms of an explicit guarantee, and in such cases, we may also apply the equalisation approach. In such arrangements, each shareholder usually guarantees the entirety of liabilities of the relevant GRE. If a credit event were to trigger the calling of these guarantees, creditors could usually demand satisfaction of their claim from any of the guarantors. Guarantors might thus be obliged to service the overall creditor's claim even if one of the guarantors is unable to make the necessary payments and/or if the investor only approaches one guarantor, enhancing the strength of this type of guarantee¹⁰. Where a statutory guarantee is unclear, we rely on a legal opinion to ascertain the degree of support in the underlying instrument.

If the guarantee/liability mechanism only provides an indirect investor claim against the guarantor, which means that only the GRE can assert a claim against the guarantor, which can be the case of maintenance obligations which require the public sponsor to secure the financial basis for the GRE or if a specific condition has to initially be met before the investor can assert a claim against a guarantor, then we would assess the liability mechanism of a lesser quality and not apply the equalisation factor.

If we deem that the GRE benefits from an explicit, unconditional, unlimited, direct and irrevocable guarantee mechanism that covers all outstanding debt, is sufficiently anchored in legislative frameworks, thus reflecting quasi certain support by the public sponsor and if we do not expect any change in the GRE's guarantee mechanism, we would apply the equalisation factor and may choose to forgo our assessments under the first step (see [Chapter 2](#)) and second step (see [Chapter 4](#) and [Chapter 5](#)) of the approach. The supplementary analysis, as outlined in [Chapter 6](#), can still impact the final rating decision.

7.2 Ratings above that of the public sponsor

Given the idiosyncratic nature of GREs, our assessment does not mechanically cap a GRE's issuer rating at the public sponsor's rating level. For example, in those cases where a GRE's stand-alone credit profile is stronger than that of its respective public sponsor, we would typically apply the stand-alone credit rating. However, we note that GREs with public sponsors that are assessed as non-investment grade are more likely to be constrained by the sponsor's rating. We also consider the extent to which the public sponsor may redirect the GRE's financial resources or access its assets which would typically imply that a cap to the GRE's issuer rating at the public sponsor's rating level is warranted. For entities rated under the Top-Down approach that possess exceptionally

¹⁰ The liability quotas for each of the guarantors are usually specified through internal agreements but creditors are entitled to full satisfaction of their claims



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strong intrinsic fundamentals, for example, ring-fenced assets outside of the public sponsor's control, a rating above that of the sponsor could also be warranted. At the same time, we are mindful that a default by a sovereign can lead to actions that cause the GRE to default and that government defaults are sometimes accompanied by a freeze in foreign currency convertibility, limiting the circumstances in which a GRE is rated higher than the public sponsor¹¹.

7.3 Treatment of group or similar structures

In the case of a group structures or for the subsidiary of a GRE¹², which is not directly integrated with the public sponsor, we would first assess the relationship between the public sponsor and the parent, and second, the relationship between the parent and its subsidiary. We consider whether support from the public sponsor can extend to the subsidiary either directly or indirectly through the parent. In cases where the interlinkages between the subsidiary and its parent are so strong and we deem the likelihood of support from the public sponsor to extend in full to the subsidiary, we may align our analysis under step one and two of this methodology. This can be the case in instances of name equality, debt guarantees or other supportive factors in the case of high strategic importance of the subsidiary, for instance. In such cases, the subsidiary's credit rating is likely to be constrained by that of its parent. The assessment of the implications of group structures for the stand-alone fundamentals of the entity takes into consideration the respective jurisdiction as well as the complexity and transparency of the parent-subsidiary relationship and is conducted in accordance with the sector-specific methodologies where appropriate.

¹¹ This is most likely to be the case in an emerging market context.

¹² In cases where the rated entity and its parent have no formal ownership, we consider financial, operational, and similar links beyond ownership stakes.

8. Annexes

8.1 Case Study 1: Top-Down Approach

➤ Step 1: Level of integration

Analytical component	Weight	Assessments			
		Limited (1)	Medium (50)	High (100)	Not applicable
Legal status	40%	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Purpose & activities	20%	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Shareholder structure	20%	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Financial interdependencies	20%	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Integration score		80		
Indicative approach	Score	$1 \leq x < 33.3$	$33.3 \leq x \leq 66.7$	$66.7 < x \leq 100$
	Approach	Bottom-up	Top-down or Bottom-up	Top-down
Approach adopted		Top-down		

The hypothetical GRE: i) has a public legal form; ii) provides an essential public service; iii) is fully owned by the government; and iv) receives material revenue from its public sponsor. As such, the level of integration with the government is assessed as 'High' which results in the application of the Top-Down approach.

➤ Step 2: Downward notching from government rating

Analytical pillar	Analytical component	Weights	Assessments				Pillar assessment
			Limited (1)	Medium (50)	High (100)	Not applicable	
Control and regular support	Strategic and operational decision-making	33%	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	Medium
	Key personnel, governing & oversight bodies	33%	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	
	Ordinary financial support	33%	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	
Likelihood of exceptional support	Strategic importance	33%	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	High
	Substitution difficulty	33%	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	
	Default implications	33%	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	

Overall assessments	Notches
Equalisation	0
High	0-1
Medium	1-2
Limited	2-3

Equalisation factor	No
Overall assessment	High
Indicative notching	0-1
Additional adjustment	-
Final indicative notching	0-1

The public sponsor which owns and controls the GRE is rated AA by Scope. In this second step, we assess the degree to which the GRE's rating can be aligned with (or deviate from) the public sponsor's rating. In this hypothetical case, the GRE does not benefit from a statutory guarantee on its liabilities which would allow for a direct alignment with the government's rating. Instead, the categories comprising the public sponsor's *Control and regular support* and the *Likelihood of exceptional support* are assessed. In this case, the assessments are 'Medium' and 'High' respectively. The higher of the two assessments is chosen, resulting in an overall level of government support assessed as 'High', which indicates a 0-1 notch downward adjustment from the public sponsor's

rating. A Rating Committee would then discuss whether the rating of the GRE will be aligned at AA, or whether a 1-notch downward adjustment to AA- (or, if deemed appropriate, even lower) is justified.

8.2 Case Study 2: Bottom-Up approach

This hypothetical GRE is owned by many sub-sovereign entities, all with a limited ownership share except for one that owns more than 40% and plays an important control and oversight role. Given this, we consider it to be the most likely sponsor to provide support to the GRE if needed and use it as the sole public sponsor for the analysis.

➤ Step 1: Level of integration

Analytical component	Weight	Assessments			
		Limited (1)	Medium (50)	High (100)	Not applicable
Legal status	40%	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Purpose & activities	20%	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Shareholder structure	20%	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
Financial interdependencies	20%	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Integration score	11		
Indicative approach	Score	$1 \leq x < 33.3$	$33.3 \leq x \leq 66.7$
	Approach	Bottom-up	Top-down or Bottom-up
Approach adopted	Top-down		

The hypothetical GRE: i) has an ordinary commercial legal form; ii) its services fulfil mostly a commercial purpose; iii) is owned by the government with a dominant share (more than 40%); and iv) does not rely on public funding. As such, the level of integration with the government is assessed as 'Limited' and the Bottom-Up approach is applied.

➤ Step 2: Upward notching from stand-alone rating

The hypothetical GRE has a stand-alone credit quality, determined by the Corporate methodology, at 'bbb'. In this step, we assess the public sponsor's capacity and willingness to provide support. The public sponsor's rating is assessed at A-.

The GRE does not benefit from any guarantee on its liabilities from the public sponsor. The resulting rating differential of two notches indicates a relatively 'Limited' *Capacity to provide support*. At the same time, we assess the public sponsor's *Willingness to support* as 'Medium'. This reflects the GRE's strategic importance for the local economy, the difficulty in substituting the entity's service quickly with private sector entities and the moderate but tangible adverse effect a hypothetical default would have on the public sponsor. The scorecard therefore recommends an indicative credit uplift of up to two notches to 'bbb', which would have to be discussed and confirmed in a Rating Committee.

Willingness to support	Capacity to provide a credit uplift - Rating differential		
	≥ 4 notch differential	3 notch differential	≤ 2 notch differential
	● High	● Medium	● Limited
● High	≤+4 notches	≤+3 notches	≤+2 notches*
● Medium	≤+3 notches	≤+2 notches	≤+1 notch*
● Limited	≤+2 notches	≤+1 notch	0 notches

Equalisation factor	No
Indicative notching	≤2
Additional adjustment	-
Final indicative notching	≤2

* The notching may be capped by the public sponsor's rating.

The Rating Committee could consider additional factors, such as the share of the GRE's business outside of the domestic market, the concentration of the shareholder structure, and visibility on potential funding support and decide to limit the uplift to one notch as a result.

For instance, the committee could consider the following differentiating factors across GREs with similar potential credit uplifts:

	GRE 1a	GRE 1b	GRE 2a	GRE 2b	GRE 3a	GRE 3b	GRE 4a	GRE 4b
Public Sponsor support assessment								
Capacity to provide a credit uplift	Limited	Limited	Medium	Medium	High	High	High	High
Willingness to provide support	Medium	Medium	Medium	Medium	Medium	Medium	High	High
Potential credit uplift	≤+1 notch	≤+1 notch	≤+2 notches	≤+2 notches	≤+3 notches	≤+3 notches	≤+4 notches	≤+4 notches

Differentiating factors* that can determine the number of notches granted, within maximum up-notching								
Share of business outside of domestic market	Significant	Insignificant	Insignificant	Insignificant	Insignificant	Insignificant	Insignificant	Insignificant
Shareholder structure	Majority owned single public shareholder	Majority owned single public shareholder	Fully owned by single public shareholder	Fully owned by group of public shareholders	Majority owned single public shareholder	Majority owned single public shareholder	Fully owned by single public shareholder	Fully owned by single public shareholder
Visibility on past and future potential funding	Low	Low	Low	Low	High	Low	High	High
Strategic importance	Not explicitly stated	Not explicitly stated	Not explicitly stated	Not explicitly stated	Not explicitly stated	Not explicitly stated	Explicitly stated	Not explicitly stated
Notches granted	0	+1	+2	+1	+2	+1	+4	+3

* Differentiating factors are highlighted in orange and all other things being equal for the rating pairs.

8.3 Short-term ratings

Scope's Rating Definitions apply to GREs and their long-term and short-term debt obligations.

Short-term ratings are correlated with the long-term ratings but also include a strong emphasis on risks and considerations related to liquidity aspects, including an assessment of available cash, reserves in form of liquid assets, access to external short-term



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liquidity and flexibility in borrowing. Our evaluation of short-term credit quality is based on our assessment of the entity's liquidity position as presented in the respective sector-specific methodologies used to assess stand-alone credit quality.



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