



Credit Ratings

Government-Related Entities Methodology

This document has been drafted for the sole purpose of the request for comments as per the regulation. It is not the final version of this document and does not constitute a methodology. The final version will be published on EthiFinance's website upon review of any comments received during the request for comments period.

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1. Introduction

This methodology establishes a comprehensive framework for assessing Government-Related Entities (GREs) across all asset classes rated by EthiFinance Ratings (EFR). It aims to capture the impact of the extraordinary support of a public sponsor on the creditworthiness of the GRE.

The methodology is designed as a transversal overlay following a three-step approach. First, we analyse the intrinsic credit quality (standalone credit rating) of the GRE using the applicable methodology (for more information, please refer to [Credit Rating methodologies | EthiFinance](#)). Second, we analyse the creditworthiness of the public sponsor. Third, we assess the extent to which the relationship with a public sponsor may positively or negatively alter the GRE's standalone rating (Expected Public Support).

2. Scope

This methodology applies to GREs whose relationship with a public sponsor is sufficiently material to influence their credit risk profile and rating. Such entities may operate across corporate sectors, financial institutions, project finance, real estate, social housing, or selected structured finance contexts to name a few.

Materiality is assessed based on economic relevance, governance influence, financial dependence, and the potential for extraordinary support under a stress scenario. For the avoidance of doubt, EFR considers that ongoing support is part of the standalone assessment of any rated entity.

The methodology applies to issuer ratings. Instrument ratings are assigned as per the applicable standalone methodologies mentioned in the introduction.

3. Definition of a Government-related entity

A GRE is defined as an entity whose credit profile is materially influenced by its relationship with a public sponsor. This influence may arise through policy mandate, legal/regulatory links, financial links, systemic importance, ownership and control, evidence of past or ongoing support.

This methodology does not apply to sovereign or sub-sovereign entities for which a dedicated methodology is applied.

No single criterion is determinative. EFR indeed applies a holistic and qualitative approach, considering both formal arrangements and practical realities, including political and institutional dynamics.

4. Analytical framework

The final rating of a GRE is determined by a three-step approach that consists in:

- 1) Assessing the Standalone Credit Rating (SCR)
- 2) Assessing the Public Support Credit Rating (PSCR)
- 3) Assessing the Expected Public Support (EPS)

4.1 Standalone Credit Rating (SCR)

The SCR reflects the standalone creditworthiness of the entity. It incorporates operating performance, financial metrics, and structural characteristics as defined by the applicable EFR methodologies.

The SCR may include recurring and predictable forms of ongoing public support that are embedded in the business model, such as regulated tariffs or contractual subsidies. However, and by-definition, it excludes discretionary or extraordinary interventions that are contingent on stress conditions and assessed through section 4.3 'Expected Public Support' of this methodology.

4.2 Public Sponsor Credit Rating (PSCR)

The PSCR reflects the creditworthiness (public or private credit rating) of the public sponsor. It is determined by EFR as per the following decision tree:

- In cases where EFR already has the PSCR, it will be used for the purpose of this methodology.
- Should EFR not have the PSCR but public credit ratings be available, EFR may decide to use one of the available ratings, or assess it internally (with or without public disclosure), using either existing methodologies or its 'Principles behind credit ratings' document.
- Should no existing rating be available, EFR will assess the PSCR internally as explained previously.

4.3 Expected Public Support (EPS)

EFR assesses the EPS through two main assessments:

- **The entity's public policy role and the legal/regulatory link with the public sponsor as described under section 4.3.1**
- **The incentives, ability, and effectiveness (including timeliness) of public support as described under section 4.3.2**

The following sub-sections provide guidance on how EFR assesses each of the two factors, including related adjustments. Not all conditions set in each column have to be met for one outcome to be chosen.

4.3.1 Public policy role and legal/regulatory link with the public sponsor

EFR assesses the extent to which the entity contributes to public policy objectives and the likelihood of extraordinary support under a stress scenario. This includes evaluating whether the entity delivers essential services, supports critical infrastructure, or plays a key role in economic or social stability, notably through a formal policy mandate. Key considerations include the degree of integration into public sector planning, including budgetary processes, regulatory oversight (for instance integration within a ministry by opposition to an entity created under a corporate governance), policy alignment as well as the degree of substitutability of the entity's services, particularly through the use of private companies, and the potential consequences of a disruption for citizens, markets, or public finances. EFR also factors in the rationale for the creation of the GRE (fiscal incentive, isolation from political meddling...) and to what extent this is effective.

	Strong	Intermediate	Weak
Entity's public policy role	Companies with a public policy mandate or which provide highly strategic services and are therefore difficult to substitute (low competition). The business of the rated entity is a very significant part of the public sponsor's budget (e.g. healthcare expenses, retirement benefits). Private companies could hardly take over the public policy role mandate.	Companies which do provide essential services but have competition and could therefore be substituted, including by private companies, although this would entail some disruption. The business of the rated entity is an important part of the public sponsor's budget, albeit not the most significant one.	Companies that provide non-essential services although they have a public policy mandate. Competition exists and the entity could rather easily be substituted with low disruption. The business of the rated entity is a non-material part of the public sponsor's budget or is not part of the sponsor's budget at all.

Adjustment

Additionally, it is our view that the strongest the legal/regulatory link between the public sponsor and the rated entity, the more likely support is expected to be provided in an event

of stress. For instance, a company for which the public sponsor is a direct or indirect lender or for which the public sponsor plays a strong supervisory role, may be more likely to intervene under stress conditions. The strength of the legal/regulatory link between the GRE and the public sponsor is assessed through both formal and informal channels. Formal aspects include ownership levels, voting rights, and legal control mechanisms as well as the legal structure itself (under which law was the GRE created ?). Qualitative aspects include the influence of the sponsor over strategic decisions, financial policy, and operational priorities, notably through the observation of Board practices (composition and appointments).

	Positive	Neutral	Negative
<i>Legal/regulatory link with the public sponsor</i>	<i>The entity is owned and/or controlled by the public sponsor through majority voting rights.</i> <i>Influence on governing bodies and strategy is very high.</i> <i>The GRE is subject to strong regulatory supervision from the public sponsor.</i> <i>The public sponsor is a significant lender of the GRE.</i>	<i>The public sponsor has minority interest in the GRE and/or has sufficient influence on the GRE's strategy either through public policies, participation in governing bodies or supervision through a public regulator.</i> <i>The public sponsor is directly or indirectly a lender of the GRE.</i>	<i>No evidence of legal ownership or influence of the public sponsor on the company's strategic decisions or financial policy.</i>
<i>Adjustment to the public policy role</i>	<i>No change if the public policy role was already assessed as 'Strong'.</i> <i>The final assessment is upgraded to 'Strong' if the assessment was 'Intermediate' and to 'Intermediate' if the previous assessment was 'Weak'</i>	<i>No change in the public policy role assessment.</i>	<i>The final assessment is downgraded to 'Intermediate' if it was 'Strong,' and to 'Weak' if it was 'Intermediate'</i>

4.3.2 Incentives, ability, and effectiveness of an extraordinary support to the rated entity

The assessment of support credibility is informed by historical behaviour and stated policy intentions and/or obligations. EFR reviews past instances of financial support, including

capital injections, guarantees, or liquidity assistance. It also considers whether similar entities have received support in comparable circumstances and whether contractual obligations exist.

The capacity of the public sponsor to provide support is assessed by considering both its creditworthiness and its ability to mobilize resources in a timely manner. This includes an evaluation of the PSCR (refer to 4.2), including fiscal flexibility, access to funding, and competing demands on public resources.

The relative size of the GRE is also important, as well as its perception by the public sponsor. We consider that large entities and/or entities that have operated for a long time under different governments are more likely to receive support. Conversely, a GRE/sector that would be perceived as an independent political force hostile to the public sponsor may test the willingness of the public sponsor to provide support.

In addition to the likelihood of intervention, EFR evaluates whether potential support would be effective in preserving credit quality and protecting creditors.

This includes assessing the expected timeliness of intervention, the form of support (e.g., liquidity versus capital), and whether support would be sufficient to address the stress scenario. Delayed or partial support may have a limiting impact on the rating outcome.

	Strong	Intermediate	Weak
Incentives, ability, and effectiveness of support (both in time and form)	Strong track record of direct or indirect past intervention (capital injections, liquidity assistance, ongoing support...). The entity poses a systemic risk which may compel the public sponsor to intervene to avoid contagion. The credit quality and financial strength of the public sponsor (ability to access funding) make it possible for the	Medium track record of direct or indirect past intervention. Some restrictions on the form of support may exist, thereby potentially preventing full support or delaying such full support. The systemic risk can be excluded. The credit quality and financial strength of the public sponsor,	No track record of past intervention, either in the company or towards peers. Support would only be partial and not be provided in timely fashion. Restrictions on the form would limit public intervention (capital injection would prevail over immediate liquidity assistance for instance).

	public sponsor to provide support regardless of the size of the GRE.	compared to the size of the GRE, may be a limiting factor of the support under a stressed scenario.	The credit quality and financial strength of the public sponsor make it difficult to support the GRE under a stressed scenario. Strong negative perception by the public sponsor may limit the willingness to intervene.
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Adjustment

Additionally, EFR evaluates the clarity and consistency of policy frameworks governing public intervention.

As a matter of fact, even when the incentives, ability and effectiveness of support are not the strongest, existing contractual/legal obligations, if any, will compel the public sponsor to intervene.

Conversely, even when incentives to support are strong, various constraints may affect the likelihood or effectiveness of intervention. These constraints may be legal, such as insolvency regimes or restrictions on public intervention; regulatory, such as resolution frameworks for financial institutions; or structural, such as subordination or ring-fencing of assets.

EFR also considers policy constraints, including state aid rules or political limitations, which may delay or limit support. The presence of significant constraints may reduce or neutralize the expected benefit of the relationship with the public sponsor.

	<i>Positive</i>	<i>Neutral</i>	<i>Negative</i>
<i>Contractual/legal obligations or constraints</i>	<i>The public sponsor has a legal obligation to support the rated entity.</i>	<i>There is no legal obligation for the public sponsor to support the rated entity nor legal/regulatory constraints that would prevent support.</i>	<i>Regulatory constraints exist, that would prevent the public sponsor from supporting the rated entity in time and/or form.</i>

<i>Adjustment to the incentives, ability, and effectiveness of support</i>	<i>No change if the assessment was already 'Strong'.</i> <i>The assessment is upgraded to 'Strong' if it was 'Intermediate'</i> <i>The assessment is upgraded to 'Intermediate' if it was 'Weak'</i>	<i>No change in the assessment.</i>	<i>The assessment is downgraded to 'Intermediate' if it was 'Strong,' and to 'Weak' if it was 'Intermediate'</i>
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4.3.3 Limitations to adjustments used in sections 4.3.1 and 4.3.2 combined

In order to avoid double counting, the combined use of adjustments detailed in 4.3.1 and 4.3.2 is limited to just one 'positive' or one 'negative'. Consequently, it cannot be twice 'positive' or twice 'negative'. However, the offsetting combination of 'positive' for one section and 'negative' for the other is allowed.

4.3.4 Final assessment of the EPS

The final assessment of the EPS takes the form of double entry table whereby the two factors previously assessed under section 4.3 are combined to derive the final level of expected public support.

TABLE 1 – CALCULATION OF THE EPS

		ENTITY'S PUBLIC POLICY ROLE AND REGULATORY/LEGAL LINK WITH THE PUBLIC SPONSOR		
		STRONG	INTERMEDIATE	WEAK
INCENTIVES, ABILITY AND EFFECTIVENESS OF SUPPORT	STRONG	CRITICAL	HIGH	MODERATE
	INTERMEDIATE	HIGH	MODERATE	LOW
	WEAK	MODERATE	LOW	NONE

5. Final rating outcome

Where support is considered sufficiently probable, timely, and effective, the rating may incorporate uplift above the SCR, under a 'bottom-up' approach that depends on the expected level of public support. However, this uplift is generally constrained by the credit

quality of the sponsor and by any structural or legal limitations affecting the entity or its creditors.

5.1 Specific case of a critical support: the equalisation

EFR considers that in cases where the support of the public sponsor to the rated entity is absolutely critical, highly probable, and free from any form of constraint, as reflected in the **‘Critical’** outcome in Table 1, the final rating will equal that of the public sponsor.

5.2 Calculation of the final rating based on the SCR, PSCR and EPS

For other situations not covered by 5.1, tables 2,3,4 presented in the appendices disclose the final ratings that derive from the combination of the SCR, PSCR, and the different levels of expected public support.

- Table 2 presents the final rating for the combinations of SCR/PSCR when the EPS is **‘High’**
- Table 3 presents the final rating for the combinations of SCR/PSCR when the EPS is **‘Moderate’**
- Table 4 presents the final rating for the combinations of SCR/PSCR when the EPS is **‘Low’**

If analysts come to the conclusion that the EPS is **‘None,’** then the SCR as defined under section 4.1 will be the final rating, meaning no credit uplift will be applied. Consequently, no table is presented in the appendices regarding that situation.

Additionally, the final credit rating of an entity typically does not exceed the sovereign rating of the country in which the rated entity operates. Consequently, when an SCR exceeds the sovereign rating, it is generally capped at the level of the sovereign rating. Exceptions to this principle may include, among others, supra-national entities, geographically diversified entities, or entities and transactions where EFR believes the sovereign risk has been mitigated.

6. Sector-specific considerations

The application of this methodology varies across sectors.

For financial institutions, resolution regimes may limit the extent to which public support benefits creditors, even when support for the institution itself is probable.

For infrastructure and project finance, the role of public counterparties and contractual frameworks is central to the analysis. While this characteristic may already form part of the dedicated methodologies, uplift may be warranted under specific conditions such as key public infrastructures (airports, bridges, railways...) where public influence is particularly visible and intrinsic to the project.

For structured finance, GRE considerations are applied only where public support is explicit or integral to the transaction structure.

7. Multiple sponsors

In cases where multiple public sponsors are involved, EFR will assess the practical implications, including the impact of a potential combined effect of the multiple sponsors, but also the related coordination challenges and differing incentives and how this may reduce the overall likelihood of effective support, for instance.

8. ESG considerations

Environmental, social, and governance factors are integrated throughout the analysis as per the applicable EFR methodologies for assigning credit ratings. Additionally, public policy priorities, particularly in environmental and social areas, may enhance the importance of an entity or, conversely, high ESG risks may also be assessed as a threat in certain cases. To avoid double counting, these ESG considerations are directly captured under section 4.3, notably through the assessment of the likelihood and nature of support (e.g. infrastructure financing).

9. Explicit guarantees

This section deals with specific cases for which guarantees have been granted. It details the pre-requisites for a guarantee to be factored in, and the impacts for the final credit rating.

As a general rule of thumb, when guarantees are in place, the final credit rating for the rated entity would equal that of the guarantor unless the rating of the rated entity exceeds that of its guarantor. However, for the equalisation of ratings to be valid, several conditions regarding the guarantees are required:

- The guarantee must be a formal one. Letters of intent or promises of guarantees are not considered formal guarantees
- The guarantee must be legally enforceable, irrevocable, and unconditional
- The guarantee must allow full and timely payment with respect to the underlying contractual obligations. It must be a guarantee of payment and not of collection. Consequently, for the equalisation to be acceptable, we expect credit substitution so that the guarantor would face the obligations of the entity to which guarantee is provided the same way it would face its own obligations
- The guarantee must extend as long as the term of the underlying obligation
- The guarantee must be provided in a jurisdiction that is favourable to this type of guarantees

10. Monitoring

Once a credit rating has been enhanced and become tied to that of a public sponsor as per the provisions set out in this methodology, EFR would expect any change in the PSCR to potentially impact the final credit rating of the rated entity.

APPENDICES

TABLE 2 – BOTTOM-UP FINAL UPLIFT FOR A HIGH EPS

	PSCR	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-	CCC+	CCC	CCC-
SCR																				
AAA		AAA																		
AA+		AAA	AA+																	
AA		AAA	AA+	AA																
AA-		AAA	AA+	AA	AA-															
A+		AA+	AA+	AA	AA-	A+														
A		AA+	AA	AA	AA-	A+	A													
A-		AA+	AA	AA-	AA-	A+	A	A-												
BBB+		AA+	AA	AA-	A+	A+	A	A-	BBB+											
BBB		AA+	AA	AA-	A+	A	A	A-	BBB+	BBB										
BBB-		AA	AA	AA-	A+	A	A-	A-	BBB+	BBB	BBB-									
BB+		AA	AA-	AA-	A+	A	A-	BBB+	BBB+	BBB	BBB-	BB+								
BB		AA	AA-	A+	A+	A	A-	BBB+	BBB	BBB	BBB-	BB+	BB							
BB-		AA-	AA-	A+	A	A	A-	BBB+	BBB	BBB-	BBB-	BB+	BB	BB-						
B+		AA-	A+	A+	A	A-	A-	BBB+	BBB	BBB-	BB+	BB+	BB	BB-	B+					
B		A+	A+	A	A	A-	BBB+	BBB+	BBB	BBB-	BB+	BB	BB	BB-	B+	B				
B-		A+	A	A	A-	A-	BBB+	BBB	BBB	BBB-	BB+	BB	BB-	BB-	B+	B	B-			
CCC+		BB+	BB+	BB+	BB+	BB+	BB+	BB+	BB+	BB+	BB+	BB	BB-	B+	B+	B	B-	CCC+		
CCC		BB+	BB+	BB+	BB+	BB+	BB+	BB+	BB+	BB+	BB+	BB	BB-	B+	B	B	B-	CCC+	CCC	
CCC-		BB+	BB+	BB+	BB+	BB+	BB+	BB+	BB+	BB+	BB	BB	BB-	B+	B	B-	B-	CCC+	CCC	CCC-

TABLE 3 – BOTTOM-UP FINAL UPLIFT FOR A MODERATE EPS

	PSCR	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-	CCC+	CCC	CCC-
SCR																				
AAA		AAA																		
AA+		AA+	AA+																	
AA		AA	AA	AA																
AA-		AA	AA-	AA-	AA-															
A+		AA-	AA-	A+	A+	A+														
A		AA-	A+	A+	A	A	A													
A-		A+	A+	A	A	A-	A-	A-												
BBB+		A	A	A	A-	A-	BBB+	BBB+	BBB+											
BBB		A-	A-	A-	A-	BBB+	BBB+	BBB	BBB	BBB										
BBB-		A-	BBB+	BBB+	BBB+	BBB+	BBB	BBB	BBB-	BBB-	BBB-									
BB+		BBB+	BBB+	BBB	BBB	BBB	BBB	BBB-	BBB-	BB+	BB+	BB+								
BB		BBB+	BBB	BBB	BBB-	BBB-	BBB-	BBB-	BB+	BB+	BB	BB	BB							
BB-		BBB	BBB	BBB-	BBB-	BB+	BB+	BB+	BB+	BB	BB	BB-	BB-	BB-						
B+		BBB-	BBB-	BBB-	BB+	BB+	BB	BB	BB	BB	BB-	BB-	B+	B+	B+					
B		BB+	BB+	BB+	BB+	BB	BB	BB-	BB-	BB-	BB-	B+	B+	B	B	B				
B-		BB	BB	BB	BB	BB	BB-	BB-	B+	B+	B+	B+	B	B	B-	B-	B-			
CCC+		BB-	BB-	BB-	BB-	BB-	BB-	B+	B+	B	B	B	B	B-	B-	CCC+	CCC+	CCC+		
CCC		B+	B+	B+	B+	B+	B+	B+	B	B	B-	B-	B-	B-	CCC+	CCC+	CCC	CCC	CCC	
CCC-		B	B	B	B	B	B	B	B	B-	B-	CCC+	CCC+	CCC+	CCC+	CCC	CCC	CCC-	CCC-	CCC-

TABLE 4 – BOTTOM-UP FINAL UPLIFT FOR A LOW EPS

	PSCR	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-	CCC+	CCC	CCC-
SCR																				
AAA		AAA																		
AA+		AA+	AA+																	
AA		AA	AA	AA																
AA-		AA-	AA-	AA-	AA-															
A+		A+	A+	A+	A+	A+														
A		A	A	A	A	A	A													
A-		A-	A-	A-	A-	A-	A-	A-												
BBB+		BBB+	BBB+	BBB+	BBB+	BBB+	BBB+	BBB+	BBB+											
BBB		BBB	BBB	BBB	BBB	BBB	BBB	BBB	BBB	BBB										
BBB-		BBB	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-									
BB+		BBB-	BBB-	BB+	BB+	BB+	BB+	BB+	BB+	BB+	BB+	BB+								
BB		BBB-	BB+	BB+	BB	BB	BB	BB	BB	BB	BB	BB	BB							
BB-		BB+	BB+	BB	BB	BB-	BB-	BB-	BB-	BB-	BB-	BB-	BB-	BB-						
B+		BB+	BB	BB	BB-	BB-	B+	B+	B+	B+	B+	B+	B+	B+	B+					
B		BB	BB	BB-	BB-	B+	B+	B	B	B	B	B	B	B	B	B				
B-		BB-	BB-	BB-	B+	B+	B	B	B-	B-	B-	B-	B-	B-	B-	B-	B-			
CCC+		B+	B+	B+	B+	B	B	B-	B-	CCC+	CCC+	CCC+	CCC+	CCC+	CCC+	CCC+	CCC+	CCC+		
CCC		B	B	B	B	B	B-	B-	CCC+	CCC+	CCC	CCC	CCC	CCC	CCC	CCC	CCC	CCC	CCC	
CCC-		B-	B-	B-	B-	B-	B-	CCC+	CCC+	CCC	CCC	CCC-	CCC-	CCC-	CCC-	CCC-	CCC-	CCC-	CCC-	CCC-

