公營事業機構(美國境外)評等準則

評等準則

範圍

本準則詳述惠譽評等美國境外「公營事業機構 (PSE)」的方法。這項準則乃是惠譽的全球主要準則，亦即*營收面評等準則 (Revenue-Supported Rating Criteria)*和*稅務面評等準則 (Tax-Supported Rating Criteria)*的特定部門延伸資料。準則內詳述了由上至下評等法的四大因素，俾由惠譽研判其評等對象獲得主權國家或地方政府 (簡稱「保薦機構」) 特別支援的可能性；以及根據由下至上評等法，可能致使個別評等提高信評的的四大因素。

惠譽 PSE 評等準則的關鍵要素，仍符合先前準則報告的內容。本報告所列之評等因素，並非一概適用於個別評等或評等行動。各項評等行動評論或評等報告，將探討與個別評等決定相關性最高的主要因素。本準則僅適用於評等提升的 PSE。單獨評估的公共實體方面，惠譽採用營收面評等準則。

要點

公營事業機構：各國對於 PSE 的定義各不相同，但同樣具備某種形式的公部門所有權、公部門扮演的角色，或特定公部門的法律地位。通常 PSE 從事的乃是非營利業務。

與保薦機構的連結：倘使出現財務壓力，未必所有 PSE 均有機會獲得上級政府的同等特別支援。因此，惠譽將 PSE 分類為極可能及時獲得特別支援的「信用連結實體 (CLE)」，或是「非信用連結實體 (NCLE)」，後者獲得特別支援的可能性與適時程度較不確定，但仍存在其他正面的輔助因素。

因素決定評等法：判定 PSE 應否與保薦機構建立信用連結之前，惠譽需先評估各種因素，包括：該實體的法律地位，或是政府的所有權比重；PSE 的營運環境；服務可替換性的難易度；以及保薦機構的不干涉政策聲明。

CLE 採用由上至下法：倘使對象極可能獲得特別的財務支援，惠譽將採用「由上至下」評等法。因為 PSE 已高度融入政府機構，可能獲得補助及/或注資，並從事嚴格控管的活動，負有公部門的使命。採用此法時，PSE 須先信用連結保薦機構，其評等則比照公部門保薦機構的國際評等，或是至多可從公部門保薦機構的國際評等調降三級。

NCLE 採用由下至上法：倘使對象有機會，但並非極可能獲得特別的財務支援，惠譽將採用「由下至上」評等法。此法主要聚焦於發行機構的個別評等，特別支援則可能提高信評，該實體的個別評等至多可提升三級。

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本報告包含中文摘譯與英文全文，譯文若與英文有出入，請以英文為準。
This report contains of summary Chinese translation and English full report. In the event of any dispute / misinterpretation, the English version shall prevail.

公營事業機構的評等 – 美國境外 (生效日期 2016 年 2 月 22 日)

分析實體與保薦機構 (地方政府或主權國家) 的相互連結，即能決定美國境外公營事業機構 (PSE) 的評等。決定評等所評估的項目，包括該實體的法律地位、由該產業的其他業者替換該項服務的難易度、營運環境，以及保薦機構的不干涉政策聲明。前述評估可決定惠譽是否採用由上至下或由下而上的評等方法，其流程包括：

由上至下或由下而上法：依據 PSE 的法律地位、融入政府機構的程度、保薦機構透過補助或注資提供的資金流量，或是控管的程度，惠譽可將 PSE 分為極可能獲得特別支援的「信用連結」保薦機構類別，或是可能獲得特別支援但較難確定的「非信用連結」類別。

在信用連結 PSE 方面，惠譽將採用由上至下法，並依據特別支援的可能性評估，決定其評等比照公部門保薦機構的國際評等，或是至多可從公部門保薦機構的國際評等調降三級。在非信用連結 PSE 方面，惠譽將採用由下而上法，其評等至多可提升三級。在此種情況下，主要聚焦於發行機構的個別評等。

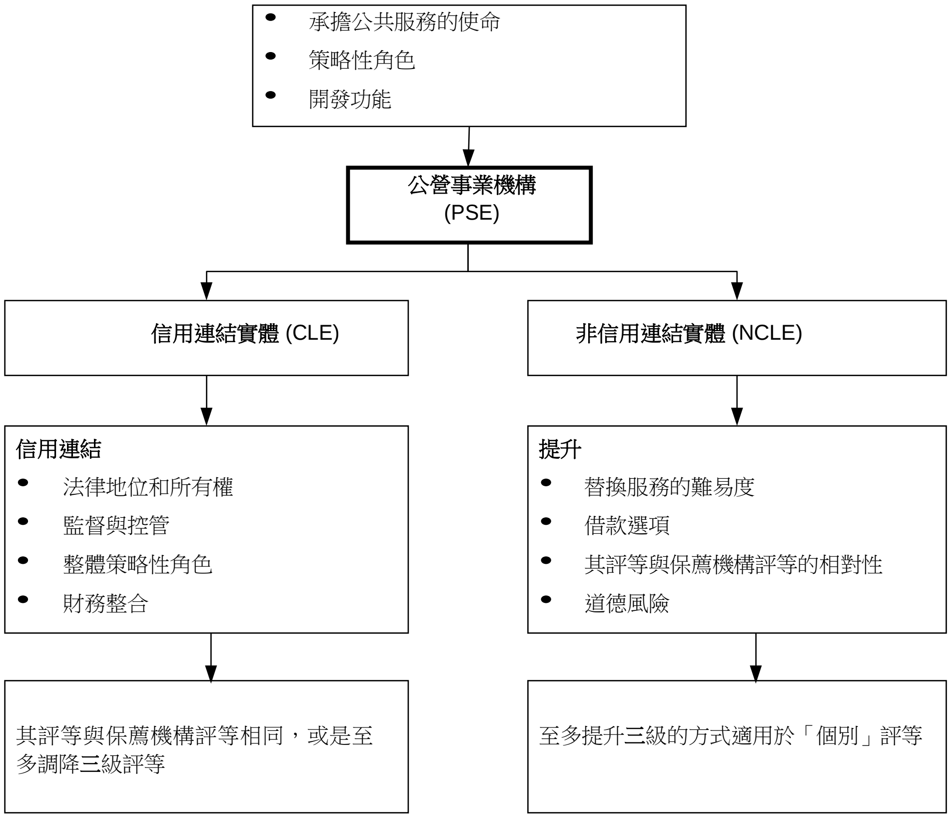
信用連結 PSE 的評等因素：關鍵評等因素決定了特別支援的內容與評等的子級定位，此類因素包括該實體的法律地位、策略重要性、保薦機構的控管和監督，以及整合程度。最終評估係依據各項評等因素所表現的實力，決定 PSE 的評等是否比照保薦機構，或是需要調降等級。

非信用連結 PSE 的評等因素：決定提升等級的關鍵評等因素，包括其他業者取代該項服務的難易度、借款選項、PSE 評等與保薦機構評等的相對性，以及道德風險。在此種情況下，無法取決於特別的財務支援；最終評估須依據各項評等因素所表現的實力，而決定提升等級。

附錄 A

圖 1

結構圖



來源：交易文件。截至某日

附錄 **B**

圖 2
PSE 調降等級指標

分級準則	**0-1** **強**	**1-2** **中**	**2-3** **弱**
法律地位	政府部門或部會；破產機制以外的特殊法人或 100% 國有公司；員工可能是公務員	政府擁有多數股權的公司 (少於 100% 但超過 50%)；可能採用商業破產機制；員工非公務員	公部門雖為最大股東，但所有權低於 50%；公司可能遭到清算
整合	PSE 財務併入政府預算。PSE 持續獲得之補助約占營收的 40%，及/或注資彌補虧損。PSE 債務可能屬於一般政府部門；向政府借款	持續營運的補助未佔營收的大部分，及/或不定期注資。PSE 向保薦的政府單位及/或資本市場借款。未認定 PSE 的市場債務屬於一般政府部門	限制移轉營業的規模 (營收的 10% 或以下)，或是資金補助未必顯示 (分配) 在保薦機構的預算內。多半在資本市場借款；PSE 的債務通常不屬於一般政府債務
控管	政府控管 PSE 的董事會、核准預算和借款、指派稽核人，或是 PSE 依法由公部門的審計機關審查	政府在董事會中佔有席次，對於企業使命和營運亦能發揮龐大的影響力；帳目可能由法院指定的公務員稽核，最終與外部稽核員共存	最終 PSE 直接或間接向政府單位報告，前述政府單位係指在 PSE 董事會中佔有席次卻未掌控董事會者；最終僅由外部稽核員/專業人士稽核帳目
策略面重要性	PSE 承擔政府的強制性責任 (健康、教育、社會住宅、用水、發展功能、持有策略性準備金)。由公共實體履行職責，民間業者幾乎沒有或鮮少參與；服務中斷具有政治敏感性。保薦機構可能收取 PSE 的股利，或是後者可能交叉補貼其他服務	PSE 承擔政府的強制性責任；服務中斷未必導致政治後果，因為亦可透過委外方式，由若干民間業者提供服務；政府可能偶而收取 PSE 的股利	PSE 承擔政府 (或是計畫民營化的單位) 的非強制性責任。建立民間業者的追蹤紀錄公部門業者提供服務的角色逐漸沒落；政府未持續收取 PSE 的股利

來源：惠譽

圖 3
PSE 由下而上指標

分級準則	0-1 弱	1-2 中	2-3 強
替換性	由於存在若干公私部門的業者，因此相對容易進行替換	公部門業者多半期望民營業者加入這個行業	PSE 若是保薦機構在該行業的代表，或是該行業的主要業者，則不太可能予以替代
相對性	PSE 是營利事業；保薦機構的 IDR 與 PSE 的個別評等之間差距有限 (一或兩級)	業績利潤低/高負債可降低保薦機構的投資等級與 PSE 的個別評等	保薦機構的投資等級較高；非營利使命可降低 PSE 的個別評等 (超過 5 級)
借款選項	PSE 的資金主要來自於保薦機構或其他公營事業機構 – 不具市場風險敞口	PSE 兼採公部門和市場資金，略為涉足資本市場	PSE 主要仰賴市場借款；違約可能降低業界信心/保薦機構同受牽連
道德風險	未明確表達特別支援的預期，最終遭法規駁回	未明確說明特別支援以維持市場紀律；但預期即將獲得特別支援	保薦機構的聲明，加上即將獲得特別支援的預期

來源：惠譽

Rating of Public-Sector Entities

Outside the United States

Sector-Specific Criteria Report

This criteria report replaces *Ratings of Public-Sector Entities,* dated 26 February 2015.

Amendment

This report was amended effective April 4, 2016 to include a section on Criteria Variations that provides additional clarity regarding the application of criteria in Fitch's rating committee process.

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Scope

This criteria report details Fitch Ratings' approach to rating public-sector entities (PSEs) outside the United States. It is a sector-specific extension of Fitch's global Master Criteria Reports, *Revenue-Supported Rating Criteria* and *Tax-Supported Rating Criteria*. It elaborates on four factors that determine Fitch's view on the likelihood of extraordinary support from the sovereign or subnational (the "sponsor") for the top-down rating approach, and four factors that may provide credit uplift to the standalone profile under the bottom-up rating approach.

These key elements of Fitch's PSE rating criteria remain consistent with its prior criteria reports. Not all rating factors outlined in this report apply to each individual rating or rating action. Each specific Rating Action Commentary or rating report discusses those factors most relevant to the individual rating decisions. This criteria report only applies to PSEs whose ratings are enhanced. For public entities that are assessed purely on a standalone basis, Fitch uses its Revenue-Supported Rating Criteria.

Highlights

Public-Sector Entity: The definition of a PSE varies from one country to another, but they all have in common some form of public-sector ownership, public-sector role or specific public-sector legal status. Normally, PSEs will undertake a not-for-profit function.

Links to the Sponsor: Not all PSEs are likely to receive the same level of extraordinary support from upper tiers of government in case of financial stress. Fitch has therefore classified PSEs as "credit-linked entities" (CLEs), where extraordinary support is highly probable and timely, or "non-credit-linked entities" (NCLEs), where the likelihood and timeliness of extraordinary support are less certain but where there are other positive supporting factors..

Factors Determining Ratings Approach: Fitch assesses various factors before deciding whether or not a PSE is credit-linked to the sponsor. These include: the legal status of the entity or the degree of government ownership; the environment in which the PSE operates; the ease of service substitution; and any policy statements of non-intervention by the sponsor.

Top-Down for CLEs: If there is a strong likelihood of extraordinary financial support, Fitch adopts a "top-down" rating approach. This is because the PSE is highly integrated into the government apparatus, may receive subsidies and/or capital injections, and has tightly controlled activities and a public-sector mission. Under this approach, the PSE is credit-linked to the sponsor and its ratings can be equalised with or notched-down by up to three notches from the international ratings of its public-sector sponsor.

Bottom-Up for NCLEs: Where extraordinary financial support is possible rather than highly likely, Fitch follows a "bottom-up" ratings approach. The focus is primarily on the standalone profile of the issuer while extraordinary support would provide credit uplift. The standalone profile of the entity can be enhanced by up to three notches.

Definition of a Public-Sector Entity

A PSE would fulfil a public-sector mandate, provide essential public services or may have a development role for the sponsor (the sovereign or subnational). It may be directly or indirectly majority-owned by the sponsor, would 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 sponsor. If regulated, this should not hinder the sponsor from giving direct or indirect financial assistance to the entity in case of need.

Credit-Linked Entity (CLE) or Non-Credit-Linked Entity (NCLE)

The first part of Fitch's analysis is to assess whether an entity is credit-linked or non-credit-linked to its sponsor as this determines whether the agency follows a top-down or bottom-up rating approach. If it is credit-linked, the sponsor would have a strong propensity to provide extraordinary support; if it is a non-credit-linked entity, extraordinary support from the sponsor would be considered as possible rather than highly probable.

Fitch looks not only at the financial or economic links but also at the informal and legal links between the PSE and its public-sector owner that would result in timely extraordinary support in case of need. Determining factors as to whether it is a CLE or an NCLE include the legal status of the entity, the ease of substitution of the services by other players in the market, the operating environment (eg, whether it is not-for-profit or operating in a commercial environment) and any policy statements that would make direct financial intervention difficult (see *Appendix A* for an overview of the different paths).

This assessment is dynamic – a PSE can shift from being considered credit-linked to the sponsor to non-credit-linked, and the approach Fitch takes to rating it is therefore subject to change. For example, a weakening of state shareholding, a change in legal status or a more commercial role for the PSE could result in Fitch no longer considering the entity as credit-linked and in the agency taking the appropriate rating action. A move in the opposite direction (from non-credit-linked to credit-linked) could also occur, although this would be rarer.

Credit-Linked Entity

PSEs that are credit-linked to the sponsor normally undertake a not-for-profit maximisation mission and have a clear public-sector mandate. They play strategic roles for the sovereign or local and regional government in a key sector.

For a PSE to be considered credit-linked, it needs to be integrated into the government apparatus, with its activities tightly controlled by the latter. It must undertake a public-service mission (normally falling under the responsibility of the sovereign or the regional/local government) and must have a clear public-sector status without any immediate plans for privatisation. The propensity of the sponsor to provide extraordinary support would be considered strong. Such a PSE can either be rated at the same level as its public-sector owner or notched down from the ratings of the sponsor. Statutory or specific guarantees could result in the ratings of a PSE or its debt instruments being automatically equalised with those of its public-sector guarantor.

Ratings Normally Credit Linked and Equalised – Specific/Statutory Guarantee

A statutory guarantee, where one exists (normally covering all of the issuer's obligations), is usually included either in the PSE's statutes or in certain laws passed by its public-sector owner in relation to its PSEs and would normally result in an equalisation of the PSE's ratings with those of the sponsor.

Related Criteria

Revenue-Supported Rating Criteria (June 2014)
Tax-Supported Rating Criteria (August 2012)

The equalisation of a PSE's issue ratings with those of its sponsor is also possible where there is a specific debt guarantee rather than a statutory guarantee. An explicit guarantee would need to be enforceable and not ultra vires (ie, it must be within the powers of the sponsor); irrevocable (it cannot be changed or cancelled once it has been granted); unequivocal (it specifies the guaranteed amount); unconditional (it has a clear definition of the extent of the guarantee); on demand (there is no question about timeliness); general (it must cover all obligations (present and future); and indefinite (it should have no time limit – unless it is a guarantee for a specific bond issue).

Fitch also assesses the track record of the sovereign/subnational in honouring past guarantees and the legal environment in which it operates.

Ratings Normally Credit-Linked but not Necessarily Equalised

Fitch considers that legal status and control typically weigh more heavily in the assessment of the strength of credit linkage than other factors because they indicate a greater likelihood of the sponsor extending extraordinary financial support in case of need. Nevertheless, if any one of the four factors is considered to be of overriding importance, its weight will dominate the outcome of the assessment.

Legal Status

Fitch believes that the less corporate the legal status of the PSE, the closer the link with the sponsor. For example, a ministerial department or a government agency would be rated closer to the sponsor than a public company. A 100%-owned public company would tend to have a narrower rating differentiation from the sponsor than a majority-owned public company. Where public ownership is under 40%, it is unlikely that Fitch would consider the PSE as credit-linked.

Control

Control includes factors such as management appointments, the controlling ministry (whether it is the finance ministry, or any other ministry or sub-ministry), financial supervision (including the approval of accounts and borrowing and budget reporting), board control, policy design, strategic direction and implementation, and official audits. The tighter the control by the sovereign/subnational of the PSE's decision-making process, the closer the link between the ratings of the PSE and those of its sponsor.

Strategic Importance

The more important the PSE's role in fulfilling public services on behalf of, or mandated by, the sovereign or the subnational, the greater the likelihood that it will be supported. For example, if the interruption or suspension of a public service (such as public transport or social housing) would have social/political consequences, the likelihood of support would be higher than if the services provided by the PSE were of secondary importance.

Fitch assesses the intention and track record of the government regarding continuing services and protecting creditors, for example, whether an essential service can still be provided even if a default has occurred. Fitch would also consider whether the default of a major PSE could have negative consequences for the creditworthiness of its public sponsor, reducing its access to funding from the capital markets.

Integration

Fitch considers that the tighter the level of consolidation (both budgetary and financial), the more likely the ratings will be equalised with those of the sovereign/subnational. The greater the level of ongoing funding of the PSE by the sponsor, the more dependent it will be and therefore the narrower the rating differentiation. In addition, the size of the public sector is important. For example, in countries where the public sector is wide, the likelihood of extraordinary support for one PSE would be lower than in countries where there are only a few key PSEs.

Notching Policy for CLEs

There would normally be no rating differentiation between the PSE and its public-sector sponsor where there is a clear statutory or specific guarantee. Where there is no such guarantee, the PSE's ratings could be lower than those of its owner, unless the other rating-supporting factors are very strong or its standalone credit fundamentals are in line with those of its sponsor.

For CLEs, the agency applies a top-down approach, with the ratings being equalised with or notched down by up to three notches from the international Local- and Foreign-Currency Long-Term IDRs of the sponsor, depending on Fitch's assessment of the sponsor's propensity to provide extraordinary support. In most situations, the ratings of a CLE tend to be higher than its standalone profile because of the not-for-profit-maximisation role.

Where Fitch assigns ratings to PSEs in a sector (for example, public hospitals), it may decide to assign a broader notching policy (ie, greater than one rating category), as their aggregate link will be weaker than the link between one single PSE and its public-sector sponsor. For National Ratings, the rating differentiation could also be wider than three notches. In cases where Fitch does not rate the Sponsor (sovereign or subnational), the agency would undertake a private rating. The ratings of the PSE would normally not be higher than those of the sponsor, even if the credit metrics of the former are significantly better than those of its public-sector owner. Debt liabilities of the PSEs are normally considered in the ratings of the sponsor according to the relevant applicable criteria.

A subnational may have a strong intent to support a PSE, but it may not be able to do so on a timely basis because of financial constraints or regulatory/legal impediments. For example, if the liabilities of the PSE are significant in relation to the revenues or GDP of the sovereign/subnational, it may be difficult for the sovereign/subnational to provide extraordinary support to the PSE in a timely manner, or in the case of the European Union a sponsor may not be allowed to bail out a PSE as it could be considered anti-competitive.

The ease of access of the sovereign/subnational to either bank funding or the capital market or its liquidity position are important for Fitch to assess the level of actual financial support that can be raised at short notice.

When the sponsor is composed of more than one local or regional government, Fitch would normally use a weighted average of the credit profile of the sponsors based on their controlling stakes and/or funding involvement in the PSE. However, if there are a large number of sponsors (eg, more than four) with no single sponsor having more than 50% of the shares of the PSE, the agency may conclude that there are no sufficiently strong links to any members of the group, and may decide not to consider the PSE as a CLE.

Figure 2 in *Appendix B* provides indications on notching based on top-down rating factors. Generally, a PSE judged to have "stronger" linkage with the Sponsor across the four factors may be rated 0-1 notches below the Sponsor's IDR. A mix of "stronger/mid-range" assessments would support a rating that is 1-2 notches down from the Sponsor's IDR. A mix of "mid-range/weaker" assessments would support a rating that is 2-3 notches off the Sponsor's IDR. If all the attributes are considered "weaker", it is unlikely that the entity would be credit linked to the sponsor

Non-Credit-Linked Entity

PSEs in this category include those that are operating autonomously and whose control by the sovereign or subnational is more at arm’s length than direct. The sponsor may only have a minority stake in the company. The PSE may have a profit maximisation function and operate to all intents and purposes as a commercial entity, or there may be short-term prospects of privatisation. Extraordinary financial support is possible but not probable, although there may be other supporting external factors.

NCLEs also cover not-for-profit private companies such as registered social housing providers in England, which have an important social mission. In order to assess the uplift to the standalone profile of the PSE, Fitch looks at a number of supporting rating factors. The rating of the PSE is normally capped at the rating of the Sponsor on the assumption that the uplift on a senior unsecured basis cannot push the credit quality of the PSE above that the Sponsor, which is ultimately providing extraordinary support.

Substitution

The likelihood of extraordinary support will depend on the number, scale and type of different players in the sector and how easy or difficult it would be to transfer the provision of services to another entity. The greater the number of private-sector players, the easier the substitution and therefore the less likely the sponsor would be to extend extraordinary support to any one entity. Also, substitution could be in relation to other public-sector players; for example, a hospital in a remote location, or one that is extremely specialised and where there are no other private- or public-sector players, is more likely to receive extraordinary support than a hospital where there may be other suitable service providers in the near vicinity.

Borrowing Options

Some services are very capital-intensive and therefore reliant on third-party funding. This funding could be from commercial banks, government specialised lending agencies, bond issuance or the private sector. The greater the reliance on external funding, the more likely the government would wish to maintain confidence in order to keep access open to these sources of funds. For example, if all funding is provided by a government-sponsored institution, the risk of fallout from a default of a PSE may have fewer repercussions for future borrowing in the sector than if this occurred as a result of non-payment of a publicly traded bond obligation.

Relativity

The differences between the credit quality of the sponsor and the standalone profile of the entity also affect the potential uplift. For example, an entity whose standalone profile is five notches below that of the sponsor is more likely to receive a greater uplift, if the other supporting rating factors are also strong, than one whose standalone profile is three notches below that of the sponsor in order to maintain some distinction between the ratings of the sponsor and the PSE. As most of the public entities that provide a public delivery service tend to have a not-for-profit mission, Fitch would expect that their profitability would tend to be lower than similar entities with a more profit-orientated role. The not-for-profit role would invariably adversely affect their standalone credit profile.

Moral Hazard

In some situations, the sponsor may have made it quite clear in political or policy statements that it would not bail out public entities in certain sectors so as not to increase the risk of moral hazard. This communication is made in order to maintain financial discipline and responsibility in the sector. Fitch acknowledges that direct financial support would be less probable if there have been explicit statements of non-intervention. However, factors could exist that would mitigate the risk of a default, such as a strong regulatory framework or easy access to funding through a government-owned agency.

Notching Policy for NCLEs

For these entities, Fitch uses a bottom-up rating approach, and the analysis focuses in the first instance on the PSE's standalone profile using Fitch's Revenue-Supported Rating Criteria (see *Related Criteria*) and any sector-specific criteria. Fitch would use a cross-sector approach where necessary in assessing the standalone profile of the entity. If after testing an entity against these criteria, there is insufficient evidence of the likelihood of extraordinary support, Fitch would not apply any uplift to the ratings and the entity would be rated on a standalone basis.

Figure 3 in *Appendix B* provides indications on notching based on bottom-up rating factors. Generally, a PSE judged to have "weaker" linkage with the Sponsor across the four factors may receive no uplift or be uplifted by 1 notch above its standalone rating. A mix of "weaker/mid-range and stronger" assessments would support a rating uplift of 1-2 notches above the standalone rating. Predominance of "stronger" assessments would suggest uplift by 2-3 notches above the standalone rating.

The assessment of the standalone profile would take into account ongoing public-sector funding (such as a service contract agreement). The link to its public-sector sponsor and the likelihood of extraordinary support would act as a credit uplift of up to three notches to the standalone assessment of the entity in the international scale. Fitch adopts this approach because if it considers the uplift to be more significant, by definition there is a strong likelihood that the sponsor would support the entity and it believes that a top-down rating approach would be more appropriate.

Variations From Criteria

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

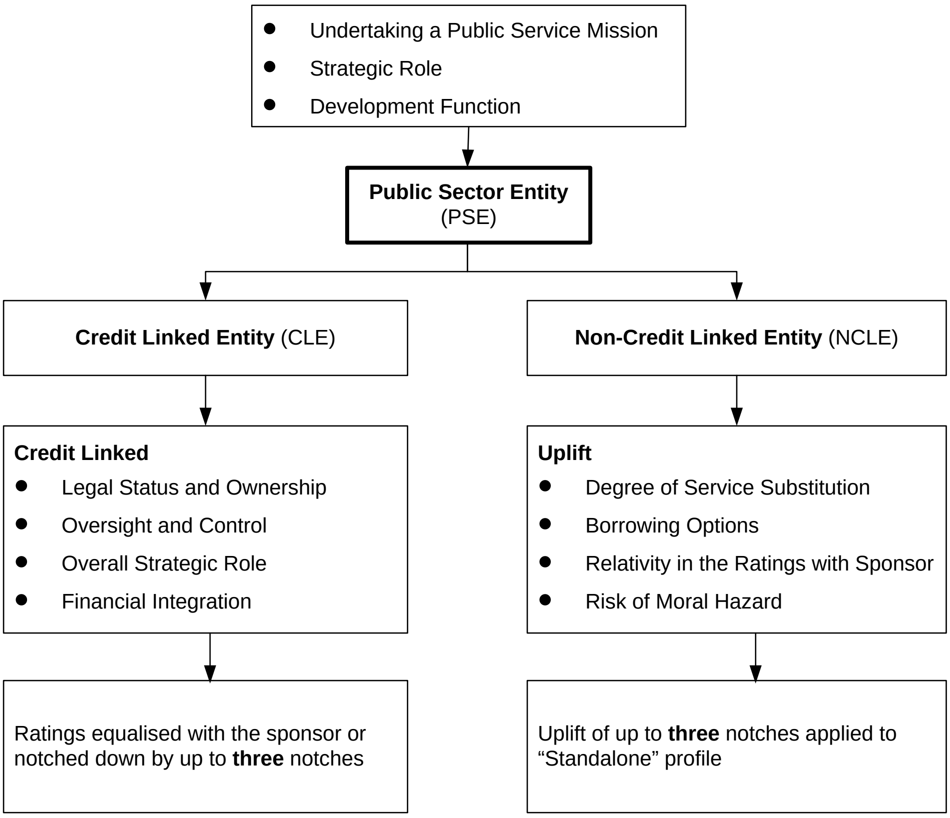
A rating committee may adjust the application of these criteria to reflect the risks of a specific transaction or entity. Such adjustments are called variations. All variations will be disclosed in the respective rating action commentaries, including their impact on the rating where appropriate.

A variation can be approved by a ratings committee where the risk, feature, or other factor 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.

Appendix A

Figure 1

Structure Diagram



Source: Transaction documents. As a date

Appendix B

Figure 2

PSE Notch-Down Attributes

Notching guidelines	0-1 Stronger	1-2 Mid-range	2-3 Weaker
Legal status	Government department or Ministry; special legal entity or 100% publicly owned company excluded from bankruptcy regime; employees may be civil servants	Majority-owned public company (less than 100% but more than 50%); likely application of commercial bankruptcy regime; employees not civil servants	Public sector is the largest shareholder but less than 50% ownership; company can be liquidated
Integration	PSE finances consolidated in the government budget. PSE receives ongoing subsidies accounting for about 40% of revenues, and/or capital injections to cover losses. PSE debt could be part of the general government sector; borrowing from government	Ongoing operating subsidies not representing a material portion of revenue, and/or irregular capital injections. PSE borrows from sponsoring government and/or on the capital markets. Market debt of PSE not considered part of the general government sector	Limited size of operating transfers (10% of revenue or less), or capital subsidies not necessarily indicated (apportioned) in the Sponsor's budget. Borrowing mostly on capital markets; debt of PSE usually not part of general government debt
Control	The government controls board of directors of PSE, approves budget and borrowing, appoints auditors, or PSE statutorily subject to public-sector audit body	The government has membership in the board of directors and exerts large influence on mission and operations; accounts may be audited by a court-appointed official, eventually co-existing with external auditor	PSE directly or indirectly ultimately reporting to government, which has membership in the PSE's board of directors but does not control it; accounts eventually only audited by an external auditor/professionals
Strategic importance	PSE undertaking mandatory responsibility of government (health, education, social housing, water, developmental functions, holding of strategic reserves). Responsibilities delivered by public entities with almost no or minimal presence of private operators; disruption of services politically sensitive. Sponsor may receive dividends from the PSE or the latter may cross-subsidise other services	PSE undertaking mandatory responsibility of the government; disruption of services may not have political consequences as a number of private-sector players could also be providing services through outsourcing; government may be receiving occasional dividends from the PSE	PSE undertaking a non-mandatory responsibility of government, or one in which privatisation is envisaged. Established track record of private-sector operators delivering services with a declining role for public operators; the government does not receive ongoing dividends from the PSE

Source: Fitch

Figure 3

PSE Bottom-Up Attributes

Notching guidelines	0-1 Weaker	1-2 Mid-range	2-3 Stronger
Substitution	A number of private- as well as public-sector operators, making replacement relatively easy	Mostly public operators with prospects of private players entering the sector	PSE represents a sector for the sponsor or is one of the main players in that sector making substitution unlikely
Relativity	PSE profit-making entity; limited (a notch or two) differential between Sponsor's IDR and PSE's standalone rating	Sponsor investment-grade and standalone rating of the PSE weakened by low performance margins/ high debt burden	Sponsor high investment-grade; not-for-profit mission weakens standalone rating of the PSE (more than 5 notches)
Borrowing options	PSE funded primarily by the sponsor or other public-sector entities – no market exposure	PSE having a mix of public and market funding, with some foray into capital markets	PSE mostly reliant on market borrowing; default may weaken confidence in sector/reverberate on Sponsor
Moral Hazard	Expectations of extraordinary support not well articulated, and eventually disallowed by regulation	Extraordinary support not clearly specified to maintain market discipline; yet expectations it will be forthcoming	Sponsor’s statement, backed by expectations of forthcoming extraordinary support

Source: Fitch

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