

## Rating Methodology for Government-related Entities

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### SCOPE OF THE CRITERIA

The criteria describe the methodology TRIS Rating uses to determine an issue or issuer rating for a corporate, financial institution, insurance company, public sector issuer, and project finance company that meets our definition of government-related entity (GRE). This “Government-related Entities Rating Methodology” is also applied to entities that do not have a state legal ownership but are regulated by the government. The criteria are not applied to local government entities and supranational institutions, which are rated under the “Rating Methodology for Local Government” and “Supranational Institutions Rating Methodology”, respectively. This rating methodology supersedes the “Government-related Entities Rating Methodology”, published by TRIS Rating on 30 July 2020.

Our criteria encompass the assessment of GREs in Thailand as well as in countries where we have assigned sovereign ratings, and the level of sovereign support for these rated entities is appropriately assessable.

### SUMMARY

Under the GRE rating criteria, we define a GRE as an entity that is expected to receive extraordinary support from the government in times of financial stress or that could be subject to negative extraordinary intervention by the government if the government is under stress.

In general, we determine a GRE rating based on an analysis of three key elements: 1) the credit profile of the government; 2) the degree of extraordinary government support and/or intervention (degree of support); and 3) the stand-alone credit profile (SACP) of a GRE (if required).

In TRIS Rating’s rating scale, the credit worthiness of the government of Thailand represents the highest rating – “AAA”. The SACP of a GRE is evaluated by using the applicable sector-specific rating methodology, e.g. corporate, financial institution, or insurance company. The SACP reflects the ability and willingness of a GRE to repay its financial obligations in the absence of extra support/intervention from the government. However, ongoing support from the government for the day-to-day operation of a GRE should be incorporated into determining the SACP of a GRE.

The degree of support is derived from the assessment of two major factors: 1) the sustainability and strength of the GRE’s relationship with the government (the linkage), and 2) the importance of the GRE to the government. The strength of linkage is categorized into four levels: “integral”, “very strong”, “strong”, and “weak”. The importance of the GRE to the government is also categorized in four levels: “critical”, “very important”, “important”, and “limited”.

If a GRE’s linkage with the government is assessed to be in the “integral” category, we will use a top-down approach to assign a rating to the GRE. Depending on the assessed level of importance of the GRE to the government, the assigned GRE rating could be at the same level as the rating on the government, or up to three notches below the rating on the government. In the top-down approach, we may not evaluate the SACP of the GRE as we believe the issue/issuer rating on the GRE is almost certainly driven by the level of importance of the GRE and the credit worthiness of the government.

If a GRE's linkage with the government is assessed to be in a category weaker than "integral", the SACP of the GRE will be relevant and will be a key element in determining the final issue/issuer rating on the GRE. Once the SACP is determined, the next step is to evaluate the degree of support which is a function of the assessed strength of linkage to the government and the degree of importance of the GRE. The higher the assessed degree of support, the closer the final issue/issuer rating on the GRE is to the rating on the government.

## DEFINITION OF A GOVERNMENT-RELATED ENTITY (GRE)

A GRE is usually set up by the government to implement key national policy and/or provide public services. The government may or may not have majority or voting control over the GRE. However, the government is expected to provide extraordinary support to the GRE if it is under financial stress or the government could intervene in the operations or financial status of the GRE if the government is under stress. Typically, a GRE has one or more of the following characteristics:

- 1) The entity was established under a special charter that not only identifies its mission and scope of services, but also stipulates the support the entity will receive from the government in the event the entity faces financial difficulties.
- 2) The entity was established in the form of a general legal entity, but is recognized as a state-owned enterprise (SOE). According to the definition stipulated in the Public Debt Administration Act B.E. 2548 (2005), SOEs include government organizations established by law, or business entities owned by the government, or limited company, or public company limited, more than 50% of whose shares are owned by the government or SOEs, or a combination of these entities.
- 3) The entity was set up for certain special objectives. Such objectives include those of a not-for-profit or public-serving nature as well as those to provide services that are not available in the market or could not be provided on a commercial basis. Some of these objectives may not be achievable in the absence of consistent support from the government. Given the existence of these special objectives, certain entities are treated as GREs even though they are not majority-owned by the government. The key consideration is that the entity has a special public policy-oriented role.
- 4) The entity's operations are heavily influenced by the government in support of public policies. The government's influence in most cases is evidenced by its representation in the entity's board of directors or a supervisory body that controls the entity's operations.
- 5) The entity has received financial and/or non-financial support from the government. Financial support could be in the form of capital injection or loans extended or guaranteed by the government or state-owned lending institutions. Non-financial support could be in the forms of rules and regulations that insulate the entity from market competition.

## RATING METHODOLOGY FRAMEWORK

Generally, the credit rating on a GRE is determined based on an analysis of three key elements: 1) the credit profile of the government; 2) the degree of extraordinary government support and/or intervention (the degree of support); and 3) the SACP of a GRE, where required.

In the case that the GRE is highly integrated with the government, we will use a top-down approach to assign a rating to the GRE. In this approach, we may not evaluate the SACP of the GRE since the final issue/issuer rating on the GRE depends entirely on the rating on the government and the degree of importance of the GRE.

### 1. CREDIT PROFILE OF THE GOVERNMENT

In TRIS Rating's scale, the credit worthiness of the government of Thailand represents the highest credit rating of "AAA". When evaluating the creditworthiness of a GRE located in different countries, our initial step involves assessing the sovereign rating of the respective government in comparison to that of the Thai government.

### 2. DEGREE OF SUPPORT FROM AND/OR INTERVENTION BY THE GOVERNMENT

We assess the degree of support by evaluating the willingness and ability of the government to support a GRE in a stress scenario. We consider the willingness of the government to support a GRE to be driven mainly by two factors: 1) the sustainability and strength of the GRE's relationship with the government, and 2) the importance of the GRE to the government. These factors are analyzed based on reviews of the relevant GRE charter and legal framework, records of past government practices, and interviews with the responsible agencies.

**2.1. The sustainability and strength of the GRE’s relationship with the government (the linkage).** The strength of the linkage between the government and the GRE is the key factor used to determine the willingness of the government to provide support to the GRE. Several measures are used to assess the linkage between the government and the GRE including the percentage of ownership, the legal status of the GRE, the degree of involvement of the government in the GRE’s operations, budgeting, business strategy, and the track record of timely support provided to the GRE during stress periods. In addition, the government’s administrative capacity to provide timely support is also important.

We classify the strength of the linkage into four levels: “integral”, “very strong”, “strong”, and “weak”. We are inclined to diminish the strength of the linkage if the government intends to decrease its stake in the GRE, even if the timing and percentage of divestment remain uncertain.

**Table 1: Sustainability and Strength of the GRE’s Relationship with the Government**

Integral	Very Strong	Strong	Weak
<ul style="list-style-type: none"> <li>Wholly or almost wholly-owned by the government and the government has tight control over its operations and financing activities.</li> <li>The GRE is closely linked with the government and is considered as an arm of the government to execute public policies on behalf of the government.</li> </ul>	<ul style="list-style-type: none"> <li>The government owns a majority share in the GRE with a strong influence on the GRE’s strategy and business plans.</li> <li>The government has a track record of providing support or provides guarantees to the GRE in almost every activity.</li> </ul>	<ul style="list-style-type: none"> <li>The government is the largest single shareholder (but could have less than 50% ownership) and has board control over the GRE. Usually, the GRE will have an independent management.</li> <li>The government has a track record of providing financial support to the GRE from time to time.</li> </ul>	<ul style="list-style-type: none"> <li>The government has a minority shareholding and/or its influence on the GRE’s operations and financial policies is limited.</li> <li>The government has a limited history of providing financial support. The government may not provide support on a timely basis due to some restrictions, or a lack of regulatory or policy influence.</li> </ul>

**2.2. The importance of the GRE to the government.** To assess the importance of the GRE to the government, we evaluate the importance of the GRE’s policy roles or the goods/services it provides, the difficulties of finding private entities or other GREs to perform those roles/services and the impact of a disruption of its roles/services to the public, and the severity of its default on the borrowing capacity and cost of financing of the government and other GREs. We classify the degree of importance of a GRE in four categories: “critical”, “very important”, “important”, and “limited”.

**Table 2: Degree of Importance of the GREs to the Government**

Critical	Very Important	Important	Limited
<ul style="list-style-type: none"> <li>The GRE operates on behalf of the government to perform key policy roles/public services.</li> <li>Its roles/services cannot be substituted by other GREs or private entities on a commercial basis.</li> <li>Its default would significantly impair the creditability of the government.</li> </ul>	<ul style="list-style-type: none"> <li>The GRE undertakes important roles in meeting key economic, social, or political objectives.</li> <li>The GRE performs roles/services which would be difficult to substitute in the short to medium term. Thus, a disruption in its roles/services would have a significant systemic impact on the economy.</li> <li>Its default would have a significant impact on the availability and cost of financing for the government and other GREs.</li> </ul>	<ul style="list-style-type: none"> <li>Part of its activities relates to an important policy roles/public services.</li> <li>The GRE provides essential infrastructure, products or services. Its default could cause a disruption in its activities which would have a significant impact on a specific part/sector of the economy.</li> <li>Its default would have a moderate impact on the availability and cost of financing of the government and other GREs.</li> </ul>	<ul style="list-style-type: none"> <li>The GRE’s activities are already provided by private entities or other GREs.</li> <li>A disruption in its roles/services would have minimal impact on the economy.</li> <li>Its default would have a limited impact on the government and other GREs.</li> </ul>

### 3. STAND-ALONE CREDIT PROFILE (SACP) OF A GRE

A GRE’s SACP reflects its ability and willingness to service its debt obligations without extraordinary support from the government. The SACP is assessed by using the sector-specific rating methodology. The SACP already incorporates ongoing support from the government for its day-to-day operations. As explained below, the evaluation of a GRE’s SACP is not required in the top-down rating approach applied for GREs that are assessed to be integrally linked to the government. Evaluation of SACP is required for GREs with linkage to the government assessed to be weaker than “integral”.

#### RATING APPROACHES

##### 1) TOP-DOWN RATING APPROACH

In the case that the linkage between the GRE and the government is assessed to be in the “integral” category, we will use a top-down approach to assign a rating to the GRE as corresponds to Table 3 below. Depending on the assessed level of importance of the GRE to the government, the assigned GRE rating could be at the same level as the rating on the government, or up to three notches below the rating on the government. In the top-down approach, we may not evaluate the SACP on the GRE as we believe that the issue/issuer rating on the GRE that is integral to the government is almost certainly driven by the credit worthiness of the government and the degree of importance of the GRE.

The following are typical characteristics of GREs that are rated under the top-down approach:

- The GRE is wholly or almost wholly-owned by the government and the government has full or tight control over its operations and financing activities;
- The GRE operates on behalf of the government and its stand-alone financial profile is usually not meaningful since the GRE is usually engaged in not-for-profit activities;
- The GRE has a special legal status which requires the government to provide extra support even in the absence of an explicit guarantee;
- The GRE’s default would severely damage the reputation of the government.

**Table 3: Issue/Issuer Rating on a GRE (TOP-DOWN RATING APPROACH) – Number of Notches Below the Government Rating**

	The Importance of the GRE to the Government			
	Critical	Very Important	Important	Limited
“Integral” Linkage	0 notch	0-1 notch	2 notches	3 notches

The importance of a GRE to the government might change over time due to change in the government policies and the circumstances surrounding the role of the GRE. Such changes may therefore trigger a change of the assigned GRE rating if such change is clearly visible and assessed as being substantial.

##### 2) MATRIX RATING APPROACH

In the case that the assessed linkage between the GRE and the government is in a category weaker than “integral”, the SACP of the GRE will be the key determining factor of the issue/issuer rating on the GRE. The final issue/issuer rating on the GRE will be based on a matrix approach that combines the assessments on the SACP of the GRE, the credit worthiness of the government, and the degree of support from the government. The degree of support is determined by combining the assessments on the two driving factors -- the linkage to the government and the importance of the GRE to the government as explained above. Table 4 depicts the concept of the matrix approach and is used as the guideline to determine the degree of support. The degree of support is graded into seven levels: “extremely high”, “very high”, “high”, “moderately high”, “moderate”, “low”, and “very low”.

**Table 4: Degree of Support**

		The Importance of the GRE to the Government			
		Critical	Very Important	Important	Limited
The Linkage	Very Strong	extremely high	very high	high	moderate
	Strong	high	moderately high	moderate	low
	Weak	moderately high	moderate	low	very low

After the degree of support is determined, we use a matrix approach to derive the final issue/issuer rating on the GRE by combining the assessed degree of support, the assessed SACP of the GRE, and the rating on the government. Table 5 serves as a guideline for determining the final issue/issuer rating on a GRE by combining the assessments on the GRE’s SACP and degree of support, on the premise that the sovereign rating of the relevant country aligns with that of the Thai government. In assigning ratings to GREs in other countries with sovereign ratings that differ from the Thai government’s, a different table will be applied based on the assessed sovereign rating on the issuer’s country.

**Table 5: Issue/Issuer Rating on the GRE (MATRIX RATING APPROACH)**

SACP of the GRE	Degree of Support						
	Extremely High	Very High	High	Moderately High	Moderate	Low	Very Low
AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA
AA+	AAA	AA+	AA+	AA+	AA+	AA+	AA+
AA	AAA	AA+	AA	AA	AA	AA	AA
AA-	AAA	AA+	AA	AA	AA-	AA-	AA-
A+	AAA	AA+	AA	AA	AA-	AA-	A+
A	AAA	AA+	AA	AA	AA-	A+	A
A-	AAA	AA+	AA	AA-	A+	A	A-
BBB+	AAA	AA+	AA	AA-	A	A-	BBB+
BBB	AA+	AA+	AA	A+	A-	BBB+	BBB
BBB-	AA+	AA	AA-	A	BBB+	BBB	BBB-
BB+	AA+	AA	A+	A-	BBB	BBB-	BB+
BB	AA+	AA-	A+	BBB+	BBB-	BB+	BB
BB-	AA	AA-	A	BBB	BB+	BB	BB-
B+	AA	A+	A-	BBB-	BB	BB-	B+
B	AA-	A	BBB+	BB+	BB-	B+	B
B-	AA-	A-	BBB	BB	B+	B	B-
C	A+	BBB+	BBB-	BB	B	B-	C

For the matrix approach, a GRE rating may change in accordance with changes in the credit profile of the government, the SACP and/or the assessed degree of support. However, it should be noted that the relationship between changes in SACP and changes in the assessed degree of support is nonlinear. Downward changes in SACP and/or the degree of support below certain levels will have amplifying effects on the resulting GRE rating. As explained above, a SACP is determined by using sector-specific rating methodologies. The SACP of a GRE could be influenced by the operating environment, its management, and changes in its financial profile. The assessed degree of support for a GRE could also change over time due to changes in the GRE’s linkage to the government and/or circumstances surrounding its role and the government change.

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