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JCR is Considering Revising its Rating Methodologies relating to Country Ceiling

Japan Credit Rating Agency, Ltd. (JCR) is considering revising its rating methodologies. The followings are the outline of the planned revision, its background, the scope of ratings that may be reviewed as a result of the revision and the time frame needed for such reviews.

1. Outline and background of revision under consideration

JCR is considering a partial revision of its current rating methodology for Sovereign titled Sovereign and Public-Sector Entities dated March 29, 2013 and the rating methodology for Corporate Entities titled JCR's Rating Methodology dated August 28, 2012. The revision will be primarily associated with a country ceiling. Currently, JCR unexceptionally uses a sovereign's foreign currency rating as a country ceiling that serves as the maximum limit for the rating of a corporate entity domiciled in the country. The proposed revision is to set a country ceiling based on the assessment of governments' likelihood to impose restrictions on foreign currency transactions.

Current rating methodologies set a sovereign's rating as a country ceiling which amounts to the maximum limit for the rating of a corporate entity in the given country. In the past, there were cases where governments imposed restrictions on foreign currency transactions by an entity in the given country when they fell into difficulties in external financing. For this reason, JCR has had government influence strongly reflected on its ratings.

However, a review of the measures taken by governments in the recent financial crises indicates that few of them now impose restrictions on foreign currency transactions by a corporate entity though some still retain such practice. In the background is the growing awareness among governments that amid the expanding financial transactions, benefits brought by capital liberalization are much greater than the cost resulting from stricter controls, which has prompted them to promote a shift to the floating rate regime and capital liberalization. Governments have also taken preventive measures to avoid crises by making multilateral currency swap agreements. Taking all these into consideration, JCR holds that its ratings based on the assessment of governments' likelihood to impose restrictions on foreign currency transactions will conform better to the actual conditions.

Based on these, JCR is considering revising its rating methodologies relating to a country ceiling.

New rating methodologies under consideration relating to a country ceiling
(1) Methodology for Sovereign titled Sovereign and Public-Sector Entities A country ceiling reflects JCR's assessment of governments' likelihood to impose restrictions on foreign currency transactions made by a corporate entity in the country to fulfill its debt obligations, such as conversion of local currency into foreign currency and remittance of foreign currency outside the country. It serves as a maximum limit for the entity's foreign currency rating and in most cases is higher than the sovereign foreign currency rating. A country ceiling only applies to a foreign currency rating. This is mainly because governments generally have limited capability to procure or issue foreign currency as compared to local currency. Therefore, governments sometimes impose restrictions on foreign currency transactions of an entity in the country when they run into difficulties financing repayment of its debt in foreign currency. A country ceiling will be determined, based on the overall assessment of the currency in circulation, foreign exchange regime, trade settlement and capital control, economic policies and foreign debts as well as responses to crises. In most cases, a country ceiling will be increased by zero-three notches from the sovereign foreign currency rating. However, countries like the US, the Euro area and Japan may not come under the above criteria mainly because they adopt hard currencies and therefore have only limited likelihood to restrict foreign currency transactions. In most cases, a country ceiling is a maximum limit for the foreign currency rating of an entity in the country. However, there may be some exceptions when agreements are in place among countries or multilateral development banks and when strong support is provided to the entity by its parent company outside the country.

(2) Methodology for Corporate Entities titled JCR's Rating Methodology

A rating for corporate entity remains susceptible to a sovereign rating in a given country. However, there are some exceptions when (i) the entity has strong support from its parent company outside the country and (ii) it has a stable and solid earnings base in foreign countries, strong ability to raise funds in the international capital markets and a relatively sound financial structure. However, in the case of (ii), a country ceiling based on the assessment of governments' likelihood to impose restrictions on foreign currency transactions will be the maximum limit for its rating.

2. Scope of ratings that may be reviewed as a result of the revision and the time frame needed for such reviews

JCR plans to finalize the proposed revision by the middle of November 2014. When the rating methodologies are actually revised, the rating on the following company may consequently be reviewed. The revision will affect the rating in a positive way. As soon as the revision is completed, JCR will have the result duly reflected on its rating.

Issuer: AEON Thana Sinsap (Thailand) Public Company Limited
Foreign Currency Long-Term Issuer Rating: A- Outlook: Negative

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