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Rating Methodology for FILP Agencies and Other Government Agencies

1. Basic Views

This rating methodology applies to FILP agencies and other government agencies, which include domestic independent administrative agencies, special companies, three local public corporations, joint corporations of local governments, and national university corporations. However, JCR does not apply this rating methodology to some of these agencies when their political importance is insignificant, when the central government's or local governments' control over management and involvement in their operations are scant, or when their financial structures are not good, taking into consideration their individual situations.

JCR evaluates ratings for these agencies based on both individual situations (business base, financial conditions, etc.) as stand-alone agencies and effects from credit enhancement by the central government or local governments who are primary investors for them in a comprehensive way. JCR incorporates credit enhancement provided by the central government or local governments into ratings for these agencies, because their management and operations are subject to the central government's or local governments' control and involvement through their investments, executive appointment, execution of operation, or budget. Even if there are no provisions stipulating expressly guarantee for interest payments and principal repayment on their debts by the central government or local governments, such agencies can expect support for these payments from the central government or local governments with high creditworthiness.

Meanwhile, incorporation of the central government's or local governments' credit enhancement into ratings for these agencies, however, does not mean that JCR determines across-the-board rating level for them as supported by the central government or local governments. JCR thinks that creditworthiness of such agencies should be determined primarily in terms of their individual situations as stand-alone agencies. JCR also thinks that evaluation of credit enhancement provided by the central government or local governments should be different for each agency.

In accordance with the views described above, JCR first sets a lower limit on rating (floor) for an individual agency, taking into consideration credit enhancement provided by the central government or local governments who are primary investors for it. JCR then determines a rating level for it, taking into consideration effects from such credit enhancement for it and its individual situations in a comprehensive way.

These agencies are roughly classified by their business outlines into agencies for "acting for governments" with high political importance, which engage in services on behalf of the central government or local governments and agencies for "providing services similar to services provided by private firms" with low political importance. The former type of agencies are agencies, to which the central government or local governments will extend their support, when such agencies fall into financial crises. The latter type of agencies, on the other hand, are agencies that may not be able to enjoy effects from credit enhancement in the future, due to privatization or similar reasons. The rating floors for the latter type of agencies, therefore, are set below those for the former type of agencies. As a result, JCR places more emphasis on individual situations as stand-alone agencies for the latter type of agencies compared with the former type of agencies in determination of ratings.

2. Viewpoint on Credit Enhancement by Central Government or Local Governments

(1) Significance in Policy

Significance in policy of services provided by individual agencies is the most important factor when evaluating effects from credit enhancement provided by the central government or local governments. JCR evaluates positions of services in policies carried out by the central government or local governments in light of their policies, plans and budgets in addition to laws and ordinances in a comprehensive manner for the significance in policy. Significance in policy of services is also a factor that can allow JCR to classify individual agencies into the "acting for governments" type agencies or "providing services similar to services provided by private firms" type agencies.

Since many FILP agencies and other government agencies were established during period of rapid economic growth after WWII to play roles in building social capital, industrial promotion or aid, these agencies have been examined and debated in terms of whether or not they have already ended their purposes or whether or not it is still necessary for the central government or local governments to get involved with such agencies for policy implementation. Given that these discussions and considerations are often revised depending on economic environments or social situations, JCR will watch closely such trends and will reflect them in ratings for them.

(2) Control over Management and Involvement in Operations by Central Government or Local Governments

Degree of control over management and involvement in operations by the central government or local governments differs from one agency to another. JCR rates FILP agencies and other government agencies from the following perspectives: (i) Regulations on executive appointment, execution of operation, budget, settlement of accounts, financing, debt guarantee, etc., (ii) Capital ties with the central government or local governments, (iii) Relations with the central government or local governments in practice that cannot be shown in laws and ordinances (including personal and business relations).

(3) Existence of Similar Businesses in Private Sector

Whether or not there are any services in private sector, which are similar to services provided by FILP agencies and other government agencies is a factor for evaluating credit enhancement by the central government or local governments. If there are already markets for such services in private sector, it is more likely that such agencies will be privatized because needs for participation of the central government or local governments are not large for policy implementation in such cases.

3. Viewpoint on Individual Circumstances as Stand-Alone FILP Agencies and Other Government Agencies

(1) Basic Views

JCR first examines (i) risk of loss, and (ii) risk of impairment of equity capital for individual situations of FILP agencies and other government agencies, given the fact that they are corporations that do not pursue a profit unlike private enterprises. Rating methodology for these agencies is basically the same as that for industrial corporations or financial institutions. JCR makes analyses of these agencies in accordance with such rating methodology when there are private enterprises engaging in services similar to those provided by them.

JCR applies such methodologies as "JCR's Rating Methodology," "Rating Methodology by Sector -- Banks," and "Rating Methodology for Incorporated Educational Institutions" for detailed evaluation points.

(2) Financial Support and Financing Support by Central Government or Local Governments

JCR keeps in mind that the central government or local governments provide financial support including subsidies, grants-in-aids or investments in capital, or financing support including fiscal loan fund, loans or debt guarantee to FILP agencies and other government agencies. This support is a distinctive feature of FILP agencies and other government agencies. JCR factors in these kinds of financial assistances as recurring support in ratings for such FILP agencies and other government agencies, if it deems that these assistances would continue to be provided into the future in light of past records. JCR then evaluates individual situations of these agencies as stand-alone agencies.

JCR checks attitudes and polices of the central government or local governments constantly in cases where this support accounts for large proportion of revenue source for these agencies.

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