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Rating Methodology for FILP Agencies and Other Government Agencies

1. Basic Views

This rating methodology applies to Fiscal Investment and Loan Program (FILP) agencies and other government agencies (“FILP agencies, etc.”) established by the central government, local governments, or other government body (the “Governments, etc.”) pursuant to an applicable special act, 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 Governments, etc.'s 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 effects from credit enhancement by the Governments, etc. who are primary investors in them and stand-alone individual situations (operation base, financial conditions, etc.) in a comprehensive way. JCR incorporates credit enhancement provided by the Governments, etc. into ratings for these agencies, because their management and operations are subject to the Governments, etc.'s control and involvement through their investments, executive appointment, execution of operations, and budget, among others. Even if there are no provisions stipulating expressly guarantee for interest payments and principal repayment on their debts, such agencies can expect support for these payments from the Governments, etc. with high creditworthiness in times of emergency.

Meanwhile, incorporation of the Governments, etc.'s credit enhancement into ratings for these agencies, does not mean that JCR determines an across-the-board rating level for them as supported by the Governments, etc. JCR also thinks that evaluation of credit enhancement provided by the Governments, etc. should be different for each agency.

2. Viewpoint on Credit Enhancement by Governments, etc.

(1) Significance in policy

Significance in policy of services provided by individual agencies is the most important factor in evaluation of effects from credit enhancement provided by the Governments, etc. JCR evaluates positions of services in policies carried out by the Governments, etc. 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 two types agencies after-mentioned: the "acting for governments" type agencies or "non acting for governments" type agencies.

Since many FILP agencies, etc. were established during the period of rapid economic growth after WWII to play roles in building social capital, industrial promotion or aid, these agencies have been intermittently examined and debated in terms of whether they have already ended their original purposes or whether it is still necessary for the Governments, etc. to get involved with such agencies for policy implementation. In recent years, however, the roles of FILP agencies, etc. have been expanding again, in conjunction with development of new policies including efforts for national resilience enhancement enabling disaster prevention and mitigation against frequent natural disasters, infrastructure development to heighten national competitiveness, and free education. Given that these discussions and considerations are often revised depending on economic environments or social situations, JCR will watch closely such trends and reflect them in ratings.

(2) Control over Management and Involvement in Operations by Governments, etc.

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

(3) Existence of Similar Operations in Private Sector

Whether or not there are any operations similar to operations by FILP agencies, etc. in the private sector is a factor for evaluating credit enhancement by the Governments, etc. In general, if there are already markets for such operations in the private sector, there is less need for the Governments, etc. to be involved with the operations as their policies and such agencies will highly likely be privatized. However, even if there are similar operations in the private sector, attention should by paid for the case when the agencies work as a social safety net, among others, that cannot be played by private companies, or as a policy role unlike private companies.

3. Viewpoint on Individual Circumstances as Stand-alone FILP Agencies, etc.

(1) Basic Views

JCR first examines (i) risk of loss, and (ii) risk of impairment of equity capital for individual situations of FILP agencies, etc. The rating methodology for these agencies is basically the same as that for business corporations or financial institutions in the private sector. JCR makes analyses of these agencies by employing such rating methodology when there are private enterprises engaging in services similar to those provided by them. For detailed evaluation points, JCR applies such methodologies as "JCR's Rating Methodology," "Rating Methodology by Sector -- Banks," and "Rating Methodology for Incorporated Educational Institutions."

(2) Financial Support and Financing Support by Governments, etc.

FILP agencies, etc. are, in general, corporations that do not pursue a profit unlike private enterprises. JCR keeps in mind that the Governments, etc. provide the agencies with financial support including subsidies, grants-in-aids or investments in capital, or financing support including fiscal loan fund, loans or debt guarantee. If assistances are deemed to continue to be provided into the future in light of past records, JCR factors in the financial assistances as a recurring support in ratings and evaluates individual situations of these agencies as stand-alone agencies.

JCR checks the attitudes and polices of the Governments, etc. constantly in cases where this support accounts for a large proportion of revenue source for these agencies.

4. Rating classification of FILP Agencies, etc.

JCR first sets a lower limit on rating (floor) for an individual agency, taking into consideration credit enhancement provided by the Governments, etc. who are primary investors in it. JCR then judges a rating level for the agency between the ceiling on par with the primary investor government's and the abovementioned floor, comprehensively given effects from credit enhancement for it and its individual situation on a non-consolidated basis.

These agencies are roughly classified by their operations into "acting for governments" type agencies highly important in significance in policy, which engage in services on behalf of the Governments, etc., and "non acting for governments" type agencies less important in significance in policy. The former type of agencies is agencies to which the Governments, etc. are highly likely to extend their support when such agencies fall into financial crises. The latter type of agencies, on the other hand, may not be able to enjoy effects from credit enhancement in the future due to privatization or similar reasons, in JCR's view. 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 on a stand-alone basis for "non acting for governments" type agencies, compared with "acting for governments" type agencies.

Japan Credit Rating Agency, Ltd.
Jiji Press Building, 5-15-8 Ginza, Chuo-ku, Tokyo 104-0061, Japan
Tel. +81 3 3544 7013, Fax. +81 3 3544 7026