

**RATING
METHODOLOGY**

28 May 2026

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Contacts

Jessica Gladstone, +1.212.553.2988
CFA
MD-Credit Strategy & Guidance
jessica.gladstone@moody's.com

Marie Diron +44.20.7772.1968
MD-Global Sovereign Risk
marie.diron@moody's.com

Navneet Agarwal, +1.212.553.3674
CFA
MD-Global Structured Finance
navneet.agarwal@moody's.com

Antonello Aquino +44.20.7772.1582
MD-Financial Institutions
antonello.aquino@moody's.com

CLIENT SERVICES

| | |
|--------------|-----------------|
| Americas | 1-212-553-1653 |
| Asia Pacific | 852-3551-3077 |
| Japan | 81-3-5408-4100 |
| EMEA | 44-20-7772-5454 |

Cross-Sector Rating Methodology

Impact of Sovereign Credit Quality on Issuer Ratings

This cross-sector rating methodology replaces the *Assessing the Impact of Sovereign Credit Quality on Other Ratings* cross-sector methodology published on 20 June 2019. In this update, we have (1) revised our criteria for rating fundamental issuers above the sovereign rating; (2) clarified how we assess fundamental issuers with operations diversified across multiple countries; (3) clarified how we evaluate government-related issuers; and (4) clarified how we view linkages between sovereign credit quality and the ratings for structured finance transactions and covered bonds. Fundamental issuers include nonfinancial companies, issuers in infrastructure and project finance, nonbank financial institutions and sub-sovereign (including US public finance) entities. We have also made editorial updates to enhance readability.

For additional information, see the related [Request for Comment](#), published on 12 March 2026, and [Results of Consultation](#), published on 28 May 2026.

Scope

This cross-sector methodology outlines our criteria that issuers typically satisfy to achieve a rating above the respective sovereign credit rating, up to the applicable country ceilings.¹ Sovereign ratings reflect the credit risk associated with debt issued by governments, whereas country ceilings indicate the highest rating level that would generally be assigned to the financially strongest issuers in a country. These issuers include nonfinancial companies, issuers in infrastructure and project finance, nonbank financial institutions, sub-sovereign (including US public finance) entities, structured finance transactions and covered bonds.

We also consider the guidance in this methodology when assigning Baseline Credit Assessments (BCAs), which reflect the standalone strength of government-related issuers (GRIs).²

Some sector methodologies provide more specific guidance on linkages between issuer ratings and the relevant sovereign rating.³ For example, the sector rating methodology for banks provides guidance on the impact of the sovereign rating on banks. The approach described in this methodology applies unless specified otherwise in sector-specific methodologies.

Rating approach

In this methodology, we use the term "fundamental" to describe issuers that are not structured finance and covered bond issuers. Fundamental issuers can be based in their home country ("domestic issuers") or internationally. We define "home country" as the country where most of an issuer's operations are located. Additionally, the term "sovereign rating" refers to the sovereign's senior unsecured rating.

Most domestic fundamental issuers are rated at or below the rating of their applicable sovereign. Because sovereigns typically possess broad taxation powers across the full breadth of the domestic economy, they therefore usually have greater financial flexibility and market access than other domestic issuers. Domestic fundamental issuers generally share many of the same broad credit exposures as the sovereign, particularly during periods of economic weakness or disruptions in credit and capital markets.

We may rate some domestic fundamental issuers above the sovereign if our analysis determines that they have a lower expected loss relative to sovereign debt obligations. A domestic fundamental issuer rated above the sovereign usually demonstrates resilience to sovereign credit risk and some insulation from the domestic economic and financial disruptions, and a weakening in sovereign credit quality. Instruments that benefit from priority of claim considerations, such as the cushion provided by a significant layer of junior capital or structural protections, may be assigned a rating above the sovereign, up to the applicable country ceilings, if our analysis indicates that these instruments are likely to have a lower expected loss than the sovereign rating.

As a sovereign's credit profile deteriorates, particularly when it is rated B1 or lower, the nature of a sovereign default and its impact on domestic fundamental issuers may become clearer. In such circumstances, we may consider a loosened rating relationship between the sovereign and a domestic fundamental issuer if we determine that such issuer has very weak linkage with the sovereign credit risk. Conversely, we may consider tightening the rating relationship if we assess that the issuer has a strong linkage to sovereign credit risk and the domestic banking system.

Issuers with operations in one country or across multiple countries

If operations mainly reside in one country, we usually consider that country's rating. If most operations are outside the country of legal domicile, we typically consider the rating (or ratings) of the country (or countries) where most of the issuer's operations are based. In this case, the domicile's sovereign rating may be less relevant because the domestic economy has a limited impact on cash flows and the sovereign's restricted ability to impose taxes and royalties. Similarly, local and foreign country ceilings may have little relevance when an issuer's operations are mostly outside the country of legal domicile.

When an issuer's operations are not predominantly linked to a single country and its revenue-generating assets are diversified across multiple countries, we first seek to identify its home country. Where we can identify an issuer's home country, we will use the home country's sovereign rating while applying this methodology to determine an issuer's rating. Our determination may be based on where the issuer maintains its headquarters or principal operations. Even in cases where we can identify the issuer's home country, we may also consider any high-risk sovereign exposures outside the home country.

If the geographic diversity of its business makes a home country difficult to determine or not applicable, we may calculate a weighted average of the sovereign ratings of relevant countries to serve as the issuer's sovereign benchmark. As a first step, we determine the "weights" of each country, which may be the portion of the issuer's revenue-generating assets, revenues, EBITDA, or cash flows in each country. We then usually calculate the weighted average of the sovereign ratings and ceilings using loss benchmarks, specifically Moody's Idealized Expected Loss Rates, for each sovereign rating and ceiling.⁴ While the weighted average serves as our primary reference point, we may consider assigning a rating above the weighted average if credit diversification across countries, scenario analysis or other mitigants indicate limited vulnerability to high-risk sovereign exposure. In our scenario analysis, we might exclude earnings from high-risk sovereigns and assess the issuer's ability to meet its debt obligations without relying on those earnings.

Government-related issuers (GRIs)

We define a GRI as an entity with full or partial government ownership or control, generally 20% or more, or one that has a special charter or a public policy mandate from a national, regional or local government. Our credit analysis of GRIs typically starts with an assessment of the GRI's standalone strength, expressed as a Baseline Credit Assessments (BCA). In evaluating standalone strength, we consider any day-to-day support from the government that can be clearly distinguished from extraordinary support. Because of the ties associated with government ownership, we usually rate a GRI at or below the sovereign rating level. In rare cases, we may rate a GRI above the sovereign rating. However, it is highly unlikely that we would rate a GRI more than two notches above the sovereign.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

The GRI methodology also applies to enterprises that are owned or sponsored by the US federal government. US states, municipal entities and the revenue enterprises and other entities they establish are generally not rated using the GRI methodology, given the unique constitutional framework of the US, including the separation of powers across levels of government. However, the GRI methodology applies to US state and municipal pension funds.

General criteria for rating fundamental issuers above the sovereign

When evaluating whether to rate an issuer above the sovereign, we examine the presence and strength of various characteristics that could insulate the issuer from credit risks the sovereign faces and creates. In the following sections, we describe the criteria that might enable ratings above the sovereign for nonfinancial companies, nonbank financial institutions, and sub-sovereign entities. Our approach is principles-based and not formulaic. We take a forward-looking view and typically consider each issuer's unique circumstances, including its relationship to the sovereign, the country's economy, the banking system and the domestic operating and regulatory environment. We may incorporate nonpublic information in this analysis.

Nonfinancial companies, infrastructure and project finance issuers, and nongovernmental organizations

For nonfinancial companies, infrastructure and project finance issuers, as well as nongovernmental organizations, we compare the sovereign rating to the company's senior unsecured rating, which may be an issuer rating or an instrument rating, when the entity is investment grade. For speculative-grade issuers, we compare the sovereign rating to the corporate family rating (CFR). Additionally, once the reference rating for an issuer, such as a company's senior unsecured rating, is determined using this methodology, the notching of other debts, like senior secured debt, follows the notching methodologies up to the applicable country ceilings.⁵

Infrastructure includes, but is not limited to, utilities, airports, seaports, toll roads, and related businesses, which may be private sector or public sector entities. Considerations for assessing the linkages of nongovernmental organizations, such as nonprofits, private universities or private hospitals, to the sovereign credit quality are usually similar to those applied to nonfinancial companies. When public sector infrastructure entities and nongovernmental organizations in the US possess characteristics similar to those of sub-sovereign entities, we may also consider those criteria in assessing the linkage to sovereign credit quality.

Credit enhancement can, in some cases, effectively mitigate many risks associated with sovereign distress. The enhancement can be implicit, such as implied support from a financially strong parent for a strategically important subsidiary.⁶ Typically, such support comes from a foreign parent; however, it may also originate from a strong domestic parent whose rating incorporates our criteria for assigning ratings above the sovereign. For example, if a nonbanking finance company (NBFC) is rated above the sovereign due to support from a non-NBFC parent, such parent must also meet the NBFC criteria to be rated above the sovereign. Specifically, it should demonstrate resilience to a prolonged dislocation in domestic credit and capital markets. Alternatively, credit enhancement can be explicit, involving parental guarantees, partial guarantees provided by multilateral development banks, or political risk insurance.⁷

Nonfinancial companies, infrastructure and project finance entities, and nongovernmental organizations with ratings above the sovereign generally meet the criteria in the following exhibit table.

Exhibit 1

Nonfinancial companies, infrastructure and project finance issuers, and nongovernmental organizations: General criteria for ratings above the sovereign

| Notches above sovereign | Criteria |
|-------------------------|--|
| One notch | <p>» A stronger fundamental credit profile than the sovereign Our assessment of the fundamental credit profile of an issuer typically includes evaluating their key financial metrics, their operational ties to economies and governments, their market positions and industry stability. Where we consider issuers or their sectors to be subject to high government interference risk, we typically will not rate those issuers above their sovereigns. Our evaluation of the risk of government interference is qualitative and relies on unique factors specific to each situation, which we analyze individually.</p> |
| Two notches | <p>» A considerably stronger fundamental credit profile than the sovereign These issuers' cash flow and profitability typically exhibit low sensitivity to domestic economic cycles. Absent sovereign constraints, these issuers would often be rated more than two notches above the sovereign.</p> <p>» Demonstrated access to international banks or capital markets This helps insulate an issuer from challenges that may arise during sovereign distress when domestic banks' willingness and ability to lend may diminish. We consider access to the bond market in the Eurozone as a source of international funding. In some cases, issuers may hold considerable cash balances outside their home country.</p> <p>» For mining as well as oil and gas companies specifically, at least one-third of revenue-generating assets should be located outside their home country OR at least one-third of revenues should come from customers outside their home country For sectors, such as mining, oil and gas, which we consider more susceptible to sovereign interference and to labor strikes and civil unrest that may accompany sovereign distress, we require that an issuer derive a substantial portion of its revenues from operations and revenue-generating assets outside its home country.</p> |
| Three or more notches | <p>» Meets criteria to be rated two notches above the sovereign, as well as at least 50% of revenue-generating assets are located outside their home country AND at least 50% of revenues are derived from customers outside their home country Absent sovereign constraints, these issuers would often be rated more than three notches above the sovereign.</p> <p>Issuers with fewer hard assets, such as consulting and technology firms, may achieve a rating three or more notches above the sovereign if at least 50% of revenues come from customers outside their home country, even if they do not meet the condition that at least 50% of revenue-generating assets are located outside their home country.</p> <p>Additionally, issuers may be rated three or more notches above the sovereign if they benefit from unique structural protections (e.g., international treaties that safeguard their operations as autonomous entities from the government), despite being wholly domestic with respect to revenue-generating assets and revenues.</p> |

Source: Moody's Ratings

Nonbank financial institutions

For insurers, we typically compare the sovereign rating to the Insurance Financial Strength Rating (IFSR). For other nonbank financial institutions, we compare the sovereign rating to the senior unsecured rating when the entity is an investment-grade issuer, or the CFR when the issuer is speculative grade.

Specific considerations for insurers

Insurers' standalone credit profiles are inherently influenced by the sovereign rating because sovereign risk is incorporated into several factors of the standalone scorecard through our analysis of their business profile, asset quality, profitability, capitalization, and financial flexibility. Additionally, we assess the insurer's operating environment, incorporating its impact on an insurer's credit profile only if it has a downward effect.

We evaluate an insurer's ability to maintain its revenue base in a weakening economic environment. The type of insurance products offered is crucial; for example, non-life insurance with a high proportion of non-discretionary products may face less pressure on revenues. For life insurers, we examine the risk of policy cancellations, which might lead to liquidity stress. Certain life insurance products allow for investment losses to be transferred to policyholders in part or in full, thus limiting an insurer's downside risk in the event of sovereign distress. Additionally, we may consider the demand characteristics of specific financial services products because some products, such as required insurance coverage, are less sensitive to the sovereign's underlying economic environment.

The main channel through which sovereign risk affects insurers is their investment portfolios. Exposure to domestic sovereign bonds and other domestic assets sensitive to sovereign risk is a key indicator of this sensitivity. Our analysis focuses on general account invested assets, which encompass all invested assets on an insurer's balance sheet, excluding those where policyholders bear investment risk, such as unit-linked invested assets. We account for these risks in our analysis of an insurer's asset risk and capitalization.

Our evaluation of an insurer's profitability considers how sovereign risk-related factors may affect its earnings base. Moreover, an insurer's financial flexibility is closely tied to the sovereign rating due to the correlation between an insurer's access to external funding sources and liquidity and its domestic sovereign.

Insurers with ratings above the sovereign generally meet the criteria in the following exhibit table.

Exhibit 2

Insurers: General criteria for ratings above the sovereign

| Notches above sovereign | Criteria |
|-------------------------|---|
| One notch | <ul style="list-style-type: none"> » A stronger fundamental credit profile than the sovereign These issuers, absent sovereign constraints beyond those already reflected in their standalone credit profiles, have standalone credit profiles at least one notch above the sovereign rating. » Low exposure or sensitivity to domestic economic conditions An insurer's revenue base can be negatively influenced by a weakening economic environment, both via lower new business and policy cancellations. However, some insurers might be more resilient; for example, market-leading insurers are more likely to sustain their revenue base. These risk factors are partially reflected in insurers' standalone credit profiles as they influence our assessment of an insurer's business profile and its profitability. » A strong ability to withstand a prolonged dislocation in credit and capital markets Most insurers are vulnerable to domestic credit and capital market disruptions during periods of sovereign distress. However, these risks are partially reflected in insurers' standalone credit profiles as they influence our assessment of an insurer's asset risk, capitalization, and financial flexibility. |
| Two notches | <p>Meets the criteria to be rated one notch above the sovereign and also meets the following criteria:</p> <ul style="list-style-type: none"> » Considerably stronger fundamental credit profiles than the sovereign and they also have some diversification beyond domestic assets, reducing their sensitivity to domestic sovereign stress Typically, an insurer with a standalone credit profile at least two notches above the sovereign rating may be rated two notches higher than the sovereign, provided that its exposure to domestic investments is less than approximately 75% of its general account invested assets. As the value of sovereign debt generally declines with a sovereign's credit deterioration and other domestic asset values also typically decrease, an issuer with a lower concentration of sovereign debt and other domestic investments is likely to experience less significant deterioration in its credit profile than an issuer with less diversified investments. |
| Three or more notches | <p>Meets the criteria to be rated two notches above the sovereign and also meets the following criteria:</p> <ul style="list-style-type: none"> » Insurers with significant diversification beyond their domestic market, both in terms of general account invested assets and revenues and/or earnings; their capitalization is also resilient to domestic sovereign stress We perform stress testing, including the potential impact of severe sovereign stress or default. To achieve a rating three or more notches above the sovereign, issuers must generally withstand such stress. Stress testing typically involves applying haircuts to domestic sovereign bonds or stress factors to other domestic invested assets, reflecting our assessment of their sensitivity to domestic sovereign stress. Additionally, we can apply stress factors to risky assets, including non-domestic ones. We also typically consider mitigating factors within the investment portfolio, as well as policyholder loss-sharing mechanisms, as permitted by contractual stipulations. Typically, insurers with a standalone credit profile at least three notches above the sovereign rating and whose domestic investments constitute less than approximately 50% of their general account invested assets and with non-domestic revenues and earnings accounting for a significant portion of the total, may be rated three notches above the sovereign, if they maintain minimum regulatory solvency capital requirements in a hypothetical scenario of severe sovereign stress. Typically, insurers with a standalone credit profile at least four notches above the sovereign rating and with domestic investments accounting for less than approximately 25% of their general account invested assets and with non-domestic revenues and earnings accounting for the majority of the total, may be rated four notches above the sovereign, if they maintain a considerable buffer above regulatory solvency capital requirements. |

Source: Moody's Ratings

Nonbank financial institutions (excluding insurers) with ratings above the sovereign generally meet the criteria in the following exhibit table.

Exhibit 3

Nonbank financial institutions (excluding insurers): General criteria for ratings above the sovereign

| Notches above sovereign | Criteria |
|-------------------------|---|
| One notch | <ul style="list-style-type: none"> » A stronger fundamental credit profile than the sovereign » Extensive diversification of its loan and investment portfolio outside the country, such that it is more stable than the broader economy of the country » A strong ability to withstand a prolonged dislocation in domestic credit and capital markets |
| Two notches | <ul style="list-style-type: none"> » A considerably stronger fundamental credit profile than the sovereign, with a majority of revenues and cash flow generated outside of the country and a similar portion of its assets located outside of the country » Minimal exposure to obligations of the sovereign country and essentially no foreign currency risk |

Source: Moody's Ratings

Specific considerations for funds, fund managers and service providers

For closed-end funds, we compare the sovereign rating to the senior fund profile and consider unique criteria to assess the linkage between closed-end funds and the sovereign. A key consideration for exceeding the sovereign rating is the amount of over-collateralization available to creditors during periods of market stress. We also assess any sector concentration. We compare the discounted asset value, typically based on a variety of stress tests, to the fund's total leverage. The ability of a fund's rating to exceed the sovereign rating may be limited by our analysis of the sovereign's institutional strength, including the strength of the rule of law and the expected observance of the legal priority of claim, as well as the likelihood of a debt moratorium.

For fund managers and securities industry service providers, the analysis is similar to our approach for nonfinancial corporates, but we also consider the effects of capital market dislocation on the demand for the firm's products.

Sub-sovereigns, including US public finance entities

The credit quality of a sovereign typically anchors the ratings of most sub-sovereign and public entities globally because these entities are generally exposed to the same macroeconomic and financial pressures that affect the central government. Public entities include states, regional and local governments, public universities, public hospitals, mass transit enterprises and housing projects. Furthermore, a currency or debt moratorium imposed by the sovereign would likely affect the country's sub-sovereigns. However, entities that are fundamentally stronger than the sovereign and demonstrate a high degree of independence are usually rated above the sovereign.

In some countries, state, provincial, regional and local governments and other public entities exhibit a higher degree of autonomy from the central government. For example, in the US, states and local governments within those states typically have broad powers to control their own finances and service debt, which reduces their linkage with the sovereign compared to many sub-sovereigns in other countries. This reduced linkage is a key consideration for rating a state or a public entity within that state above the sovereign. Some public entities may include local governments, school districts, public universities and US municipal utilities.

More generally, we compare the sovereign rating to the long-term issuer or senior unsecured rating of the sub-sovereign. For US public finance, we typically compare the sovereign rating to the issuer rating or senior-most unenhanced rating. The broadest pledge of revenues (general obligation pledge) is usually the senior-most rating. When US public entities pledge assets as collateral, it is typically through lease debt that carries appropriation or abatement risk and is rated below the general obligation pledge.

Sub-sovereigns, including US public finance entities, with ratings above the sovereign generally meet the criteria in the following exhibit table.

Exhibit 4

Sub-sovereigns, including US public finance entities: General criteria for ratings above the sovereign

| Notches above sovereign | Criteria |
|-------------------------|--|
| One notch | <ul style="list-style-type: none"> » A considerably stronger fundamental credit profile than the sovereign » Minimal reliance on payments or other support from the sovereign or have extraordinary financial resources or fiscal flexibility to withstand disruption or reduction of payments and support » An issuer typically has strong autonomy from the sovereign We assess constitutional protections or other binding arrangements that insulate a sub-sovereign's taxing authority, decision-making and revenues from the central government as well as the sub-sovereign's reliance on revenue transfers from the central government. For sub-sovereign public enterprises, we consider the autonomy in setting revenues, the level of subsidies from the central government and the central government's ability to tax the entity or otherwise require transfers of funds. » Low sensitivity to economic cycles While the sub-sovereign's economy is often closely linked to the broader economy, there may be instances where a sub-sovereign's economy is more dynamic than the country's overall economy, with low reliance on the sovereign government for employment and substantially greater GDP growth and incomes per capita. » Strong ability to withstand a prolonged dislocation in credit and foreign exchange markets due to limited need to access markets, or an investment portfolio with a significant portion of non-domestic assets |
| Two notches | <p>Meets criteria to be rated one notch above the sovereign and also meets the following criteria:</p> <ul style="list-style-type: none"> » Essentially no reliance on revenues or support from the sovereign » Very low sensitivity to economic cycles, including greater resilience during downturns The issuer's economic performance is more resilient than the nation, but not necessarily immune to national downturns. Some slowdown during a national downturn may happen, but the sub-sovereign economy is expected to recover more quickly and would do so without reliance on sovereign support. In assessing a sub-sovereign's economic ties to the sovereign, we may also consider the number of residents employed by the central government, either directly or indirectly through institutions that rely heavily on the central government for revenue. In some cases, certain sub-sovereign public enterprises may exhibit significantly greater economic resilience than the sovereign; for example, when revenues are derived from user fees paid by more affluent segments of the population or for essential services, which tend to remain stable or even increase during material declines in general government revenues. While most sub-sovereign public enterprises have a purely domestic customer base, a small subset, such as internationally renowned universities, generate substantial user fees from nondomestic sources. » Essentially no exposure to credit markets and no foreign currency risk |

Source: Moody's Ratings

Specific considerations for US housing finance agencies (HFA)

Given the important role of the sovereign and related entities in supporting the overall housing market and in being an important counterparty supporting HFA loan portfolios, we consider unique criteria in assessing their credit linkage to the sovereign. For HFA programs, the amount of over-collateralization and the types of loan enhancement within the trust are key credit considerations. To achieve a rating above the sovereign, we typically require higher levels of over-collateralization for programs with significant concentrations of mortgage-backed securities in their loan portfolios. These factors, evaluated alongside the program's other credit strengths and challenges, determine the extent to which the program could be rated above the sovereign.

Structured finance transactions and covered bonds

Sovereign credit quality is relevant to our analysis of structured finance transactions and covered bonds because it typically affects the credit quality of underlying assets or key entities, such as support providers and covered bond issuers. However, in many structured finance sectors, including covered bonds, senior notes generally benefit from diversification of underlying assets, credit enhancement in the structure and other structural features that often enable their ratings to exceed the sovereign rating, subject to the constraint of the relevant country ceiling cap.

Structured finance transactions and covered bonds that can be rated up to the relevant country ceiling exhibit key characteristics that reduce the linkage to sovereign credit quality: diversification of underlying assets, credit enhancement in the structure and contractual provisions for replacement of key counterparties. In contrast, some structured finance sectors or transactions exhibit a stronger linkage to sovereign credit quality and will be capped a certain number of notches above the sovereign, potentially at a level below the country

ceiling. Structured finance transactions with assets in multiple countries benefit from country diversification but could still be subject to the country ceilings of the largest single-country exposures.

In all cases, we assess the linkage to sovereign credit quality in accordance with applicable structured finance and covered bonds rating methodologies.

Diversification and type of underlying assets

The credit quality of underlying assets is generally correlated with the sovereign credit quality. However, diversification of assets can reduce the linkage between structured finance transactions or covered bonds and the relevant sovereign. For example, in the event of a sovereign default, a granular local portfolio comprising several thousand corporate loans across multiple industry sectors is likely to experience a lower default rate than a highly concentrated asset pool in the same country.

Credit enhancement in the structure

Credit enhancement, such as note subordination, over-collateralization or cash reserves, can reduce the linkage to sovereign credit quality. Increases in credit enhancement that benefit investors also increase the protection they have against asset defaults associated with sovereign distress. The effectiveness of credit enhancement in reducing sovereign linkage also depends on its form. For example, additional collateral that is highly correlated with the sovereign is usually less effective than other forms of credit enhancement.

Replaceability of counterparties and contractual provisions for replacement

Structured finance transactions and covered bonds typically depend on counterparties such as account banks, swap providers, servicers and cash managers to make payments or perform key operational functions. The creditworthiness of these counterparties is generally tied to the country where they are located. Moreover, certain counterparties, such as government-related entities, may exhibit a higher correlation with sovereign credit quality. However, to achieve the highest rating on our rating scale, most structured finance transactions are specifically structured to delink the credit quality of the senior notes from that of the transaction's counterparties.⁸ Structural features, such as contractual provisions that require replacing downgraded counterparties with stronger ones, either within or outside the sovereign, reduce the linkage between counterparty default risk and sovereign credit quality.

Structured finance sectors and transactions with stronger linkage to sovereign credit quality

The following characteristics increase the linkage to sovereign credit quality and may result in the highest achievable rating for a structured finance transaction being lower than the country ceiling and more closely aligned with the sovereign rating:

- » **Domestic transactions backed by assets with high correlation to sovereign credit quality, such as sub-sovereign or bank debts.** For example, a municipal and sub-sovereign collateralized loan obligation (CLO).
- » **Structured finance sectors with strong rating linkage to a fundamental issuer, generally the sponsor.** In sectors such as credit-tenant leases, fully supported asset-backed commercial paper, operating company securitizations and repackaged securities, transactions generally lack one or more of the three characteristics described above that are designed to reduce linkage to sovereign credit quality. Consequently, the rating assigned to these transactions is typically aligned with or slightly above the rating of the fundamental issuer. The strong linkage between the fundamental issuer and sovereign credit quality results in a higher correlation with sovereign credit quality for these structured finance sectors.
- » **Domestic transactions backed by a single asset or a highly concentrated portfolio with debt owed by obligors reliant on refinancing.** For example, we typically cap single borrower commercial mortgage-backed securities (CMBS) transactions, as well as CMBS transactions with a small number of borrowers, lower property quality and higher Moody's loan-to-value ratio.⁹ The cap is typically a certain number of notches above the sovereign rating and below the country ceiling to reflect a greater dependence on the local economy and banking sector.

Structured finance transactions with assets in multiple countries

Diversification of underlying assets across multiple countries reduces the potential linkage to any single sovereign, and asset exposure to a single country with non-Aaa country ceiling can be mitigated with sufficient credit enhancement. For structured finance transactions with assets in multiple countries, a key consideration is the largest exposure to any country with a local currency ceiling below Aaa. For each security, we compare its credit enhancement level to any of these single-country exposures. We typically cap the rating of a security at the local currency ceiling of the country where the security's credit enhancement is lower than its exposure to

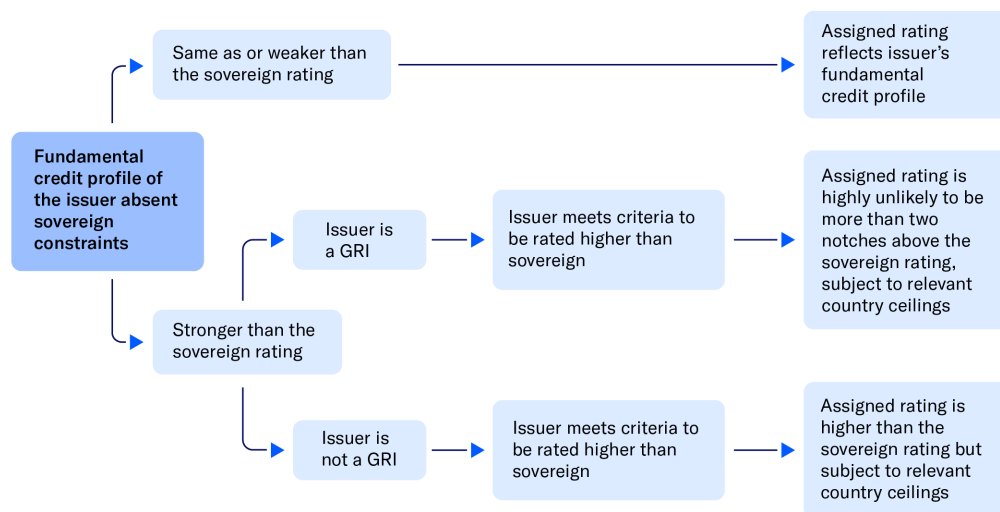
that country. For structured finance transactions with assets denominated in foreign currency, we also perform a country-level coverage analysis, assuming a high but below 100% loss severity assumption upon the occurrence of a foreign currency country ceiling event (e.g., a moratorium on foreign exchange payments).

Appendix: Sovereign ratings, linkages and country ceilings

For issuers in all sectors, we also consider the relevant country ceilings. Sovereign ratings reflect the credit risk associated with debt issued by governments, whereas country ceilings indicate the highest rating level that would generally be assigned to the financially strongest issuers in a country, including the strongest structured finance transactions whose cash flow are generated predominantly from domestic assets or residents. In many structured finance sectors, including covered bonds, senior notes generally benefit from diversification of underlying assets, credit enhancement in the structure and other structural features that often enable their ratings to exceed the sovereign rating, subject to the constraint of the relevant country ceiling cap. Ceilings also cap the ratings of almost all domestic fundamental issuers; however, fundamental issuer ratings are more often constrained below the ceiling through their linkage with the sovereign rating, as shown in Exhibit 5.

Exhibit 5

Overview of the sovereign ratings, linkages, and country ceilings interplay for fundamental issuers



Note: Local currency ceilings apply to obligations denominated in the currency of the home country, while foreign currency ceilings pertain to obligations denominated in a different currency. Foreign currency ceiling incorporates the transfer and convertibility risks that are incremental to the general country-level risks reflected in the local currency ceilings.

Note: Our assessment of an issuer's fundamental credit profile typically includes evaluating their key financial metrics, industry stability and market position.

Source: Moody's Ratings

We usually do not assign ratings above the relevant country ceiling. However, exceptions can be made in certain cases. For example, but not limited to: securities that possess special characteristics which, based on our analysis, indicate a lower risk of government interference than the ceiling suggests; and securities evaluated using our credit substitution approach. Additionally, we assess other forms of guarantees on a case-by-case basis. For example, we may assign ratings above the country ceiling if the issuer benefits from explicit guarantees, or in certain cases, implicit support from a foreign parent. This is particularly true when the issuer is strategically important to the parent, leading us to expect parental support.

Moody's related publications

Credit ratings are primarily determined through the application of sector credit rating methodologies. Certain broad methodological considerations (described in one or more cross-sector methodologies) may also be relevant to the determination of credit ratings of issuers and instruments. A list of sector and cross-sector methodologies can be found [here](#).

A list of technical white papers can be found [here](#).

Data summarizing the historical robustness and predictive power of credit ratings can be found [here](#).

For more information, see *Rating Symbols and Definitions*, which is available [here](#).

Endnotes

- [1](#) See Appendix for a high-level overview of country risk ceilings. Country ceilings are assigned pursuant to a separate methodology. For more information, see also Rating Symbols and Definitions and our methodology that discusses country risk ceilings. A link to a list of our sector and cross-sector methodologies and a link to *Rating Symbols and Definitions* can be found in the "Moody's related publications" section.
- [2](#) See our cross-sector methodology that discusses GRIs. A link to a list of our cross-sector methodologies can be found in the "Moody's related publications" section.
- [3](#) A link to a list of our sector and cross-sector methodologies can be found in the "Moody's related publications" section.
- [4](#) For more information, see the discussion of Idealized Probabilities of Default and Expected Losses in *Rating Symbols and Definitions*. A link can be found in the "Moody's related publications" section.
- [5](#) See our cross-sector methodology that discusses our broad principles regarding notching decisions. A link to a list of our cross-sector methodologies can be found in the "Moody's related publications" section.
- [6](#) See our cross-sector methodology that discusses our assessment of affiliate support in the absence of a guarantee. A link to a list of our cross-sector methodologies can be found in the "Moody's related publications" section.
- [7](#) See our cross-sector methodology that discusses our credit substitution approach. A link to a list of our cross-sector methodologies can be found in the "Moody's related publications" section.
- [8](#) Our structured finance counterparty risk cross-sector methodology describes our approach to assess counterparty risks. A link to a list of our cross-sector methodologies can be found in the "Moody's related publications" section.
- [9](#) For more information, see our commercial mortgage-backed securitizations methodologies. A link to a list of our sector and cross-sector methodologies can be found in the "Moody's related publications" section.

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