

MODEL OVERVIEW

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EDF-X Parent/Group Support Framework At a Glance

The EDF-X Parent/Group Support Framework evaluates how support from a parent/group company impacts a subsidiary's credit risk.

Companies that form part of a larger group or a parental company often enjoy the benefits of support. This assistance can be in the form of direct financial help, through majority shareholding, or direct management involvement, offering sector-specific expertise. Conversely, subsidiaries may also become riskier when considered as part of a parent/group. For example, when a parent/group company withdraws capital from a less leveraged, better-capitalized subsidiary.

The EDF-X Parent/Group Support Framework considers both sides of this relationship. It uses a scorecard approach, taking the parent/group's credit risk and additional inputs to adjust the standalone credit risk assessment from EDF-X. The scorecard is structured to allow an evaluation of the likelihood and type of support provided by a parent/group and, ultimately, the change in a firm's PD and PD-implied rating based on this support.

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Methodology Overview

The EDF-X Parent/Group Support Framework uses a qualitative approach inspired by Moody's Investors Service's (MIS) methodologies combined with our experience working with clients to understand how risk management teams consider the impact of parental support. Further, the framework leverages extensive ownership information from Orbis. Orbis contains firm level information on over 462 million companies across the globe, captured from a diverse range of sources.¹ Coverage spans all regions, with 72 million in North America, 66 million in Central and South America, 140 million in Europe, 119 million in Asia, 29 million in Middle East and Africa, and 34 million in Oceania. Orbis includes extensive ownership data about company shareholders, their percentage of ownership, and the hierarchy of ownership. It also includes global company hierarchies linking firms, ownership, locations and people, including 213 million active ownership links, 23 million active branch links, 396 million people, and 1.8 billion total ownership links. The EDF-X PSA framework leverages this deep ownership and linkage data in Orbis and allows users to update firm level PD and PD-implied rating based on the likelihood of receiving support to accurately reflect economic realities between companies in the same corporate family/group.

The framework has three support type options: Adverse Impact, Explicit Guarantee, Implicit Support Assessment. Each step requires user input.

Option 1: Adverse Impact

If there is an adverse impact on the subsidiary by being part of the group (for instance, when the parent/group extracts capital from its subsidiary to fulfill its own leverage requirements), then the resulting PD and PD-implied rating is the worse of the company and its parent/group.

Option 2: Explicit Guarantee

If there is an explicit guarantee (the guarantee is full, legally enforceable, valid, unconditional, and irrevocable) from the parent/group and the parent/group is rated investment grade by Moody's Investors Service, then the resulting PD and PD-implied rating is the best of the company and parent/group guarantor.

Option 3: Implicit Support Assessment

Considers factors that indicate support from a parent/group is more likely. It concentrates on the following factors:

- » Degree of operational integration
- » Economic contribution to the parent/group and affiliated company to which it belongs
- » The degree of strategic alignment that exists (between the company and support structure)
- » Any contractual agreements
- » Usage of name and brand

The questions, possible responses, and scores associated with each are shown in Table 1. The resulting scores are added together to determine the level of implicit support. Based on this score and type of parent/group, the resulting PD-implied rating is described in Table 2.

¹ Additional information regarding the Orbis data set can be found at <https://view.ceros.com/moodysanalytics/orbis-infographic/p/1>

Table 1: Implicit Support Assessment Questions, Answers and Scores

OPERATIONAL INTEGRATION		
1. Ownership & Control	The parent/group has 100% ownership and substantial voting control.	15.38
	The parent/group has a majority stake of the ownership (>51%) and substantial voting control.	7.38
	The parent/group does not have majority stake of the ownership (<51%) and lacks voting control; or the information is unknown.	0
2. Management Involvement	The parent/group board members constitute more than 30% of the borrower's board members; or senior management from the parent/group are highly involved in the borrower's management process and decisions.	15.38
	15-30% of the board members are from the parent/group.; or senior management from the parent/group are somewhat involved in the borrower's management process and decisions.	7.38
	Less than 15% of its board members are from the parent/group; or the borrower operates and makes decisions mostly independently; or the information is unknown.	0
ECONOMIC CONTRIBUTION TO PARENT/GROUP		
3. Asset Materiality	Borrower is a core-subsidiary and accounts for more than 30% of the parent/group assets.	7.69
	Borrower accounts for 15% to 30% of the parent/group assets.	3.69
	Borrower accounts for less than 15% of the parent/group assets; or borrower is a newly set-up firm within the parent/group and the weight of the borrower within the parent/group is yet to be established; or the information is unknown.	0
4. Profit relative to Parent/Group Operating Profit	Borrower accounts for more than 30% of the parent/group's operating profit.	7.69
	Borrower accounts for 15% to 30% of the parent/group's operating profit.	3.69
	Borrower accounts for less than 15% of the parent/group's operating profit, or borrower is a newly set-up firm within the group and the weight of the borrower within the parent/group is yet to be established; or the information is unknown.	0
STRATEGIC ALIGNMENT		
5. Strategic Alignment/Importance	Yes, borrower has shown strategic alignment and importance to the parent/group in the past year.	15.38
	No strategic alignment is known.	0
CONTRACTUAL AGREEMENTS		
6. Support Track Record	The parent/group has a strong and legally enforceable form of support agreement as follows in place: <ul style="list-style-type: none"> • Letter of Undertaking • Cash Advances • Contractual Arrangement to the borrower • Partial Guarantee • Keep-wells • Maintenance Agreements 	15.38
	The parent/group does not have a legally enforceable support agreement and some support form as follows is in place: <ul style="list-style-type: none"> • Letter of Comfort • Letter of Awareness • Verbal statement of intent to provide support 	7.38
	The parent/group has never provided any material support and has no support form in place; or the borrower is a newly setup firm and has no track record of support from parent/group.	0
7. Cross Default Provisions	Exist	15.38
	Not Exist	7.38
NAME BRAND		
8. Name/Brand Association	Borrower's Name contains parent/group's Name.	7.69
	Borrower's Name does not contain parent/group's name, but it is well known in the industry that the borrower is affiliated with parent/group.	3.69
	No benefit is known.	0

Table 2: Details of Implicit Support Notching Rules

PARENT/GROUP IS FINANCIAL OR GOVERNMENT RELATED INSITUATION	IMPLICIT SUPPORT NOT EXPECTED (ISA SCORE LESS THAN 52 OR PARENT/GROUP IS NOT INVESTMENT GRADE)	IMPLICIT SUPPORT EXPECTED (ISA SCORE BETWEEN 52 AND 72)	IMPLICIT SUPPORT HIGHLY LIKELY (ISA SCORE GREATER THAN 72)
Yes	No impact. Rating of the Company stays the same	Best of: » Company's implied rating » Parent/Group's implied rating minus 2 notches	Best of: » Company's implied rating » Parent/Group's rating minus 1 notch
No		Best of: » Company's implied rating » Lesser of: – Company's implied rating plus 1 notch – Parent/Group's implied rating minus 2 notches	Best of: » Company's implied rating » Lesser of: – Company's implied rating plus 2 notches – Parent/Group's implied rating minus 1 notch

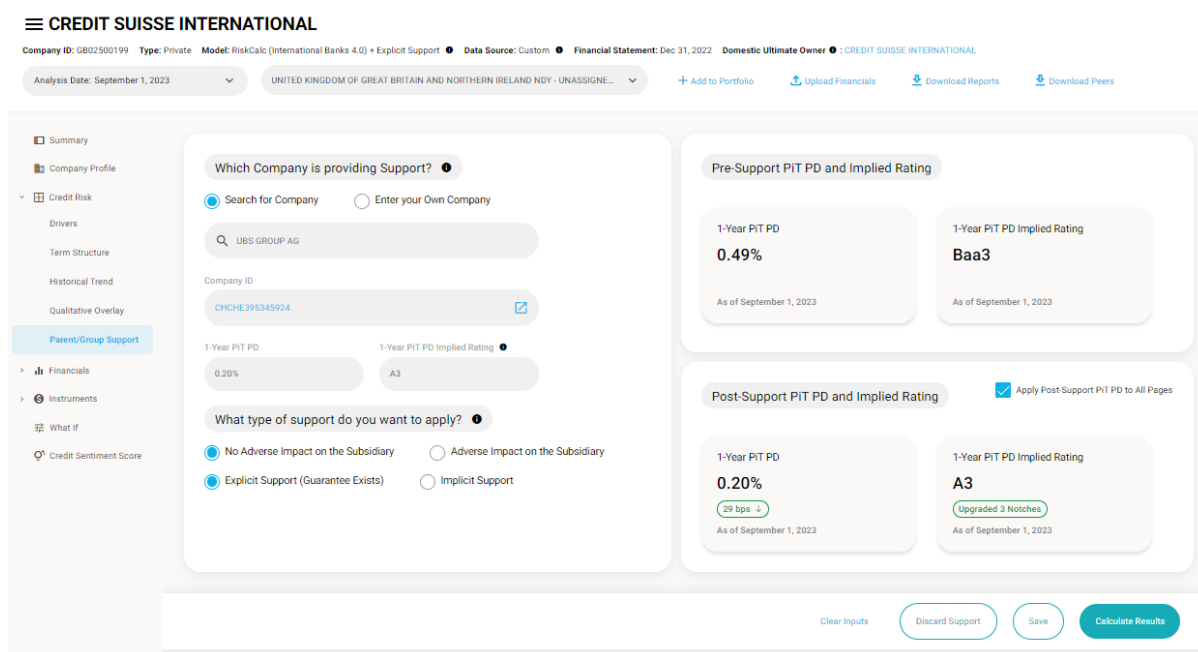
Using the Parent/Group Support Framework in EDF-X

In this section we provide a quick guide to using the Parent/Group Support feature in EDF-X. To illustrate this, we use Credit Suisse International² a privately held UK registered company, which is owned by UBS Group AG at time of writing.

The **Parent/Group Support** can be found on the left-hand menu under the **Credit Risk** section. After navigating to the page, we find the parent/group is prepopulated when available using Orbis ownership data, with PD and PD-implied rating. EDF-X contains details of many corporate families/groups but is not exhaustive. If EDF-X does not have ownership data for the company, users can easily search for the parent/group or provide the PD-implied rating directly in this interface.

The default assumptions are that there is no adverse impact and an explicit guarantee exists. Figure 1 shows the results of these assumptions. Here we see Credit Suisse's initial Baa3 PD-implied rating is upgraded to an A3 PD-implied rating considering the explicit support of an investment grade parent/group.

Figure 1: Parent/Group Support – Explicit Support Example



² The BvDID is GB02500199

Users should select the “Apply Post Support PiT³ PD to All Pages” tick box if they want this result to be used as the assessment today and assume the support also applies in the future.

If explicit guarantees do not exist, users should select the Implicit Support option. This will reveal the factors that require additional input below, as shown in Figure 2. Once all the questions are answered the results can be recalculated. Using Orbis financial and ownership data, the users can also extract information for filling in responses to questions related to Operational Integration and Economic Contribution To Parent/Group. Based on the responses selected for this example the score is between 52 and 72⁴. This, and the fact that UBS is a financial company, results in an improvement to 2-notches below the parent/group’s A3 to Baa2, one notch above the standalone implied rating of Baa3.

Again, users should select the “Apply Post Support PiT PD to All Pages” tick box if they want this result to be used as the assessment today and assume the support also applies in the future.

Figure 2: Parent/Group Support – Explicit Implicit Example

The screenshot displays a web-based form for calculating Parent/Group Support. It is divided into several sections:

- Which Company is providing Support?**: Includes radio buttons for "Search for Company" (selected) and "Enter your Own Company". A search bar contains "UBS GROUP AG" and a "Company ID" field contains "CHCHE395345924".
- 1-Year PIT PD and Implied Rating**: Shows "0.35%" and "Baa2" as of October 1, 2023.
- What type of support do you want to apply?**: Includes radio buttons for "No Adverse Impact on the Subsidiary" (selected), "Adverse Impact on the Subsidiary", "Explicit Support (Guarantee Exists)", and "Implicit Support".
- Post-Support PIT PD and Implied Rating**: Shows "0.35%" (12 bps down) and "Baa2" (Upgraded 1 Notch) as of October 1, 2023. A checkbox "Apply Post-Support PIT PD to All Pages" is checked.
- Factors**:
 - Parent Industry**: "Parent is Financial Company or Government Related Institution" with "Yes" selected.
 - Operational Integration**:
 - Ownership and Control**: Three radio button options regarding ownership and voting control.
 - Management Involvement**: Three radio button options regarding board and management involvement.

³ 'PiT' refers to the EDF-X Point-in-Time PD, a probability of default metric that incorporates the current position of the credit cycle in addition to financial statement information. For addition information, please see Moody's "EDF-X RiskCalc Point-in-Time Converter" or contact the Research and Analytics support team: ma_support@moodys.com.

⁴ The EDF-X PSA Framework leverages a scorecard approach where individual parent/group support factors relate to a given value and the sum of these values determine the ultimate level of support. Please see Table 1. For addition information, please see Moody's "Parent/Group Support Framework" methodology or contact the Research and Analytics support team: ma_support@moodys.com.

Economic Contribution to Parent/Group ^

Asset Materiality

- Borrower is a core-subsiidiary and accounts for more than 30% of the group/parent asset.
- Borrower accounts for 15% to 30% of the group/parent asset.
- Borrower accounts for less than 15% of the group/parent asset; or borrower is a newly set-up entity within the group/parent and the weight of the borrower within the group/parent is yet to be established.

Profit relative to Group/Parent Operating Profit

- Borrower accounts for more than 30% of the group/parent's operating profit.
- Borrower accounts for 15% to 30% of the group/parent's operating profit.
- Borrower accounts for less than 15% of the group/parent's operating profit, or borrower is a newly set-up entity within the group and the weight of the borrower within the group/parent is yet to be established.

For More Information

To learn more about EDF-X and other Moody's solutions, contact our experts at clientservices@moodys.com.

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