News Release

Japan Credit Rating Agency, Ltd.

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Revisions of Rating Methodology for a Holding Company

Japan Credit Rating Agency, Ltd. (JCR) hereby announces that it has revised its “Rating Methodology for a Holding Company.”

JCR revised the Rating Methodology as a result of considerations that were announced in its press release "JCR Solicits Public Comments on Revisions to Rating Methodology for a Holding Company" dated February 7, 2025, and JCR integrated "Rating Viewpoints on Pure Holding Companies (Domestic Industrial Corporations)" (July 2003) and "Rating Methodology for a Holding Company" (January 2015) and reorganized into a single rating methodology "Rating Methodology for a Holding Company" as proposed at the time of requesting the public comments on them. There are no individual ratings that need to be revised as a result of these revisions.

The revised rating methodology will be posted on the page of “Rating Methodologies: General” (https://www.jcr.co.jp/en/rrinfo/general/) of JCR’s website.

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Rating Methodology for a Holding Company

This rating methodology applies primarily to a pure holding company of domestic corporate group (hereafter, “holding company”). For holding companies of financial groups whose core companies are financial institutions subject to prudential regulation (such as deposit-taking financial institutions, insurance companies, and securities companies), "Rating Methodology for Financial Groups' Holding Companies and Group Companies," which is based on this rating method and adjusted to take into account the characteristics of financial institutions, is applied.

For the rating of a holding company of an overseas corporate group, JCR will apply this rating methodology, making necessary adjustments based on the legal and accounting system in the country of domicile.

1. Base of Assessment

The rating of a holding company is based on assessment of creditworthiness of the entire group to which the holding company belongs (group creditworthiness). Group creditworthiness is basically determined by analyzing the group's business and financial bases on a consolidated basis and comprehensively evaluating them, but in some cases adjustments are made to the consolidated data to reflect the actual situation of the group.

2. Examination of Controlling Power over Group

When assigning an issuer rating to a holding company of a corporate group, JCR places importance on the holding company's ability to control group companies (the holding company's controlling power over group) based on an assessment of the cash flow generation capability of the entire group. This is because if the group as a whole is generating ample cash flow and the holding company has strong controlling power over group, it is thought that even if the holding company itself has some weaknesses in terms of profit and finance, it will be able to operate itself without any particular problems by making timely and appropriate use of cash flow of its subsidiaries in the holding company's operations.

The holding company's controlling power over group is judged based on ratio of its voting rights in its subsidiaries, degree of involvement of the holding company in the decision-making in its subsidiaries, status of dispatch of officers, status of establishment and utilization of group CMS and credit lines, and unity of business management, etc. For holding companies, if there are no problems with the holding company's controlling power over group and there are no special circumstances, the holding company's issuer rating is not notched down and JCR assigns the same rating to the issuer rating as the group creditworthiness.

The benefits of adopting a holding company structure include the ability to make management decisions quickly and acquisitions and sales of businesses easier by delegating authority to subsidiaries. However, if the holding company's controlling power over group is deemed insufficient due to the pursuit of speed, or if the cash flow of a business that is expected to be sold cannot be considered as the group's overall cash flow, care must be taken when evaluating the unity of the group. Furthermore, while the higher the percentage of the holding company’s voting rights, the higher the degree of control and involvement over the subsidiary, if it is not 100%, the composition of other shareholders is taken into account and the actual controlling power is examined.

3. Examination of Cash Flow Balance

When assigning an issuer rating to a holding company, JCR also checks the structure of the holding company's standalone cash flow. In many cases, holding companies do not operate their own businesses and have low cash flow generation capabilities, and in many cases, their assets are small, excluding the shares of their subsidiaries. As a result, the source of repayment for the external financial liabilities of the holding company depends on the cash it receives from its subsidiaries, such as that in the form of fees and dividends. When evaluating cash flow of a holding company on its own, JCR considers balance between cash inflows and outflows (cash flow balance). Specifically, JCR checks ratio of stable income other than dividends, such as management guidance fees, to cash inflows, stability of dividends, and sufficiency of cash inflows when compared to cash outflows. If the cash flow balance of the holding company alone is in serious trouble, the issuer rating of the holding company may be notched down from the group creditworthiness, based on a comprehensive judgment of the group's overall cash flow generation capability and the holding company's controlling power over group.

4. Examination of Collectability

When examining collectability of individual debt ratings, JCR first checks whether the source of funds for the shares of the subsidiary is equity or external debt. Here, the subsidiary means a consolidated subsidiary. If both the holding company and the subsidiary default, with the holding company having no major assets other than the shares of the subsidiary, the source of debt collection for the creditors of the holding company, which has the shares of the subsidiary as its major asset, depends much on the liquidating dividend that the holding company receives as a shareholder of the subsidiary. The liquidation dividends are the residual assets after the creditors of the subsidiary have received their priority repayment, and if the net assets of the subsidiary have been damaged, the amount may be significantly less than the initial investment. Therefore, if the holding company has raised funds for the shares of the subsidiary through external debt, the creditors of the holding company will not be able to secure sufficient debt collection funds and will be subordinated to the creditors of the subsidiary.

The degree of structural subordination of the holding company in debt collection is confirmed by the situation of double leverage. Double leverage means a structure in which a holding company acquires shares in its subsidiary using external debt, and the subsidiary further procures external debt. If the double leverage ratio, which is the numerical value obtained by dividing the numerical value of the shares in the subsidiary by its equity capital on the holding company's non-consolidated balance sheet, is high, and if the group creditworthiness is low (BB range or lower), JCR consider notching down of the holding company's individual debt rating from the long-term issuer rating.

Meanwhile, the holding company can cover structural subordination in debt collection by receiving credit enhancements such as guarantees from subsidiaries. If there are such credit enhancements, the structural subordination is not reflected in the rating as notching down.

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