

RISING ROLE OF PREFERRED CREDITOR STATUS IN RATINGS OF MULTILATERAL DEVELOPMENT BANKS



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Unlike commercial banks, multilateral development banks (MDBs) are non-depository financial institutions that rely on funding from the international capital markets.¹ As a result, they pay great attention to their credit ratings, which now increasingly depend on their preferred creditor status (PCS), also called preferred creditor treatment (PCT), without which their ratings could suffer downgrades.

PCS is accorded the MDBs by their member countries. Moody's 1991 publication *Global Credit Analysis* defines PCS as follows: "the condition of preferred creditor is an implicit accord between borrowers and lenders that loans made by these institutions receive preferential servicing and repayment treatment above other borrowing-member liabilities such as commercial bank debt."²

1 The author would like to acknowledge with gratitude the inputs of SCIC colleagues Roger P. Nye (who worked formerly at Moody's), Donna Davis (who worked formerly at Standard & Poor's), and Urmila Malvadkar. In addition, he would like to thank David Levey (retired Moody's sovereign and supranational analyst) and Eric Paget-Blanc, a longtime supranational analyst at Fitch, for their kind inputs. Any errors or omissions remain the author's responsibility.

2 David Stimpson, *Global Credit Analysis*, (London: Moody's Investors Service, 1991), 188.

The concept of PCS or PCT goes back to the League of Nations. However, the modern use of the term for MDBs, alternatively termed international financial institutions (IFIs) or multilateral lending institutions (MLIs), stems from the Paris Club renegotiations³ treatment of sovereign debt obligations to IFIs as exempt from rescheduling or default. This preferred creditor status or treatment for MDBs has now taken center stage in their top credit ratings as rating agencies assess their capital adequacy in relation to their risks of credit losses. Other rating factors include the MDBs' liquidity risk and shareholder support.

At the 70th anniversary of the Bretton Woods institutions, the author was shown an early draft of the World Bank's charter, which *lacked* a key provision limiting the bank's lending and guarantees to the sum of its paid-in capital plus callable capital plus unimpaired reserves (the "one-to-one gearing" limit). Without this statutory limit, the author told the person who shared the early draft with the author (the son of the Mexican Minister of Finance in 1944) that the bank would not in his view have merited a top rating as PCS had yet to be established for MDBs. *The gearing limit was in fact inserted in the final agreement*, which enabled the bank to obtain a single-A rating in 1947 and its upgrades to double-A in 1950 and triple-A in 1959 from Standard &

Poor's (S&P), before any lender had a significant PCS track record.

The World Bank's top credit ratings allowed it market access to become a major lender and guarantor. The regional and subregional development banks established since then have similarly sought high credit ratings, often with the same one-to-one gearing limit (e.g., for the African Development Bank (AfDB), the Asian Development Bank (ADB), the Inter-American Development Bank (IADB), the European Bank for Reconstruction and Development). But some MDBs do not have such limits (e.g., the International Finance Corporation (IFC), which makes loans exclusively to private corporations in developing countries, and the Council of Europe Development Bank).

The backing of callable capital on which the one-to-one gearing and hence the top ratings relied in the early days of MDBs has eroded as a foundation of their credit ratings with the widening of MDBs' member states with no or low ratings. The weight of paid-in capital and reserves (which can bear potential losses) and of liquidity as rating factors has risen, and metrics to assess asset quality—such as PCT or PCS and nonperforming loans (NPLs)—are now more critical in assessing capital adequacy.

MDBs have experienced relatively low loan losses compared to commercial banks because of their de facto PCS.

3 The Paris Club is an informal group of creditor nations whose objective is to find workable solutions to payment problems debtor nations face. As an informal group, it has no official statutes and no formal inception date, although its first meeting with a debtor nation was in 1956, with Argentina.

Accordingly, rating agencies have long recognized the importance of PCS or PCT in protecting the MDBs' asset quality. The approaches of all three agencies on PCS were broadly similar until the last decade. PCT has, particularly since 2012, taken a more critical role for MDB ratings for each agency, though in different ways. MDBs must understand these rating agency differences to maintain their credit ratings and their capital markets access.

STANDARD & POOR'S

The author wrote the agency's rating criteria for supranationals in 1980. S&P applied them to a dozen MDBs including the International Bank for Reconstruction and Development (IBRD), the IADB, the ADB, the European Investment Bank (EIB), the European Coal and Steel Community (ECSC), Eurofima, Euratom, the European Economic Community (EEC), the Nordic Investment Bank, the AfDB, and the Council of Europe Resettlement Fund, which was renamed Council of Europe Development Bank in 1999. The term "preferred creditor" first appeared in two published reports from S&P: one in April 1984 for the AfDB and the second a year later for the World Bank.⁴ The term was first

enshrined in S&P's supranationals rating criteria in October 1985, which the author also wrote.

PCS in S&P Criteria of 2008

The 2008 S&P rating criteria continued the agency's focus on financial performance and shareholder support. But 2008 witnessed the first S&P warning on PCS:

Much of the good performance of the MLIs' sovereign loan portfolios is the result of the preferred creditor treatment generally accorded them.... This has taken on a broader meaning and is now misunderstood by some to mean that MLIs with preferred creditor status will not suffer defaults on sovereign and sovereign-guaranteed loans.⁵

2012 S&P Criteria: PCT and Single-Name Concentration Drive Capital Ratio Model

In 2012, S&P introduced an MDB economic capital model for supranationals, called the risk-adjusted capital (RAC) ratio, which placed PCT and single-name concentration (SNC) assessments at its center. The model incorporated

4 The 1984 S&P report on the AfDB was authored by Mahesh K. Kotecha and Barbara Nunemaker, and the 1985 S&P World Bank report was authored by Mahesh K. Kotecha.

5 S&P Global Ratings' Credit Research, *Supranationals Special Edition 2008*, <https://www.standardandpoors.com>. We note here the artful use of the word "treatment" in place of "status" as the former appears discretionary and thus capable of being different for different institutions at different times whereas the latter can connote a sense of immutability.

probabilities of default (PDs) by rating, loss-given default, and risk weights (RWs) by rating—all driven by PCT—in a Basel-inspired quantitative model, using granular MDB financial data.

PCT Adjustment

S&P 2012 criteria assessed PCT in two parts: (1) qualitatively, based on the repayment record of each lender by the borrowing countries dating back indefinitely (as far back as the beginning of the institution), and (2) quantitatively, based on a multilateral debt ratio, defined as the share of multilateral debt in total external debt of each borrowing country (a method it rightly discontinued in December 2018). If very strong, PCT led to a sovereign rating uplift of the sovereign borrower by up to three notches, reducing its RWs. But this effect was often insufficient to offset the increased risk-weighted assets from the SNC adjustment plus the high risk weights, even after PCT adjustments.

SNC Adjustment Is Another Critical Factor

The 2012 RAC model included SNC adjustments based on a Basel formula devised for large commercial banks and attributed to Michael Gordy and Eva Lütkebohmert.⁶ These authors warned that their formula overstates concentration risks in small portfolios (typical of MDBs). S&P's SNC adjustments were as high as 100 percent or higher for some AAA-rated MLIs, compared to the maximum cited by Gordy⁷ of 3.81 percent of the exposure for banks with portfolios of 250 to 499 obligors.

Impact of PCT in S&P's 2012 Criteria

The 2012 S&P criteria led to 12 MDB rating changes (of 32 MDBs it rates) within about a year, a very rapid pace for supranationals.⁸

Some analysts compared S&P's 2012 economic capital model against a traditional Monte Carlo simulation-driven economic capital model and found S&P's RAC model more conservative.⁹

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- 6 Michael Gordy and Eva Lütkebohmert, "Granularity Adjustment for Basel II" (Discussion paper, Series 2: Banking and Financial Studies, No. 01/2007, Deutsche Bundesbank, Frankfurt, January 2007), table 3.
 - 7 Michael Gordy and Eva Lütkebohmert, "Granularity Adjustment for Regulatory Capital Assessment," *International Journal of Central Banking*, (September 2013) 58, table 3.
 - 8 S&P Global Ratings' Credit Research, "Supranationals Special Edition 2013" (New York: March 11, 2014), 7–9. Report describes the rating changes: "despite six ratings changes following our updated (2012) MLI criteria, four additional ratings changes in the last three quarters of 2013, and two rating changes during the first half of 2014, supranationals' credit quality has remained broadly stable over the longer term."
 - 9 See William Perraudin, Andrew Powell, and Peng Yang, "Multilateral Development Bank Ratings and Preferred Creditor Status" (Inter-American Development Bank Working Paper, No. 697, July 2016).

To relieve RAC pressures, the AfDB, the World Bank, and the IADB undertook a sovereign exposure exchange for diversification benefits. The AfDB followed up with its pioneering Room2Run transaction, synthetically transferring a part of the risk of its private-sector loans to investors. S&P's RAC model facilitated quantification of the balance sheet benefits. The benefits were also recognized qualitatively by Moody's and Fitch.

PCT in 2018 S&P Criteria

Based on market feedback, S&P reduced the severity of both its PCT and SNC adjustments in December 2018. But S&P continues to use the problematic Gordy formula for SNC, on the basis that other methods (e.g., Herfindahl–Hirschman

index or Monte Carlo simulations) are no better for its purposes.

Under its 2018 criteria, S&P determines PCT primarily on the basis of the MDB's 10-year average arrears on sovereign loans (principal or interest past due more than 180 days as a percentage of the total of such loans),¹⁰ adjusted by S&P expectations, including for the net flows of funds to the country from the lender.¹¹ It has dropped the use of its multilateral debt ratio.

The market has welcomed S&P's new criteria, including its cap on the PCT-adjusted PDs used for SNC adjustment, with a floor of a B– rating for the lowest-rated countries, intended to limit RAC ratio volatility. Only about a third of the MDBs' S&P rates have been reviewed under the new criteria (as of mid-March 2019).¹²

10 S&P's decision to use both principal and interest past due in measuring arrears penalizes institutions that have chronic sovereign arrears from fragile states (like Zimbabwe) whose payment problems reflect political instability or prolonged economic mismanagement or both and thus an inability to pay rather than a lack of willingness to accord preferred creditor treatment. Using arrears data assesses both PCT and PD together, with the interaction between the two and the unique impact of PCT separate from PD not specifically addressed.

11 "Net flow" reflects the net of financial inflows and outflows between a sovereign and an institution. A positive net flow in this instance means the sovereign is receiving more funding from the institution than it is paying out to service debt to the same institution. Net flows were not considered explicitly in the old criteria.

12 As of March 9, 2019, nine MDBs are rated triple-A by each agency and two are rated double-A plus (or Aa1, the Moody's equivalent). Of five other MDBs rated by all three agencies, Moody's and Fitch rate two higher by two notches (EU and Corporación Andina de Fomento [CAF]), two by one notch (the European Financial Stability Facility and IFFIm), and Moody's rates IDB Invest higher by one notch and Fitch by two notches than S&P. Of 16 MDBs rated by only two agencies, Moody's does not rate one, Fitch does not rate eight, and S&P does not rate seven.

MOODY'S HISTORICAL APPROACH TO PCS

According to a former rating executive of Moody's, PCS was a key factor in MDB ratings from 1985 onward. But the process of evaluating the degree of confidence in the strength of PCS in any particular case was one of discussion within rating committees. There were no specific targets or thresholds for NPLs or other quantitative indicators. It was a more qualitative, judgmental process than in recent times. Moody's certainly looked then as well at the long-term averages of NPLs and saw lending to private borrowers (as, for example, for the IFC) as riskier than lending to public entities, but it also took into account the political stability of the relationships between major borrowers and the MDB in question.¹³

PCS in Moody's 2011 Criteria

Though PCS was thus considered earlier by Moody's, an unpublished Moody's PowerPoint presentation to Structured Credit International Corp. and a mutual client in September 2011 refers to PCS as follows:

- As supranational institutions, they benefit from unusual privileges and immunities:

- [Their] rating [is] not necessarily bound by the country ceiling of the country in which they are headquartered [absence of interference]
- Preferred creditor status results in a demonstrated enhancement of their asset quality

PCS in Moody's 2013 and 2018 Criteria

Moody's criteria from 2013¹⁴ provide the following rationale for PCS:

One reason that governments treat these entities as their most senior creditors is that these institutions are not just another source of finance for them. In a situation of sovereign stress or general credit market disruption, an MDB or other supranational may be the only available source of external finance. Even though some governments have defaulted on payments to supranational organizations, preferred creditor status is a proven enhancement to supranational asset quality. (p. 6)

While paying heed to PCS as a market practice, Moody's hastens to add in the 2013 criteria that a seven-year

13 From a recent email to the author from David Levey, a former managing director of Moody's for sovereign and supranational ratings.

14 Moody's, *MLI Rating Criteria for Multilateral Development Banks and Other Supranational Entities* (December 16, 2013), https://www.moodys.com/research/Multilateral-Development-Banks-and-Other-Supranational-Entities--PBC_161372.

average NPL ratio best captures the benefits of PCS:

Assessing potential losses entails evaluating the track-record of asset performance. A commonly used ratio, non-performing assets as a percentage of total loans illustrates historical loan portfolio performance.... We do not consider the performance of equity investments in this measure. Given that the ratio provides a static, point-in-time description of loan performance, we use a seven-year average of the ratio such that we look beyond a particular cycle (whether positive or negative). (pp. 11–12)

It uses the following key criteria language in 2013 on NPLs and PCS:

Rather than make possibly inaccurate assumptions regarding the benefits of PCS on asset quality, we choose to include the NPL indicator, which captures the reality of the benefit on asset quality. PCS has a varying impact on an MDB's asset quality based on which sector it lends to, with public sector loans benefitting more significantly than private sector loans. As a result, it is common to see

MDBs that lend to the private sector with higher NPL levels while many institutions that lend to the public sector have zero or very low NPLs. (p. 12)

Moody's September 2018 criteria repeat the above 2013 language verbatim, continuing the practice of using the NPL ratio averaged over the last seven years to measure PCS.¹⁵

Moody's 2019 Request for Comment

Moody's January 4, 2019, request for comment (RFC) proposes to depart from this practice, dropping the 2013 language cited in the last but one paragraph above and proposing to provide, based on PCS, an uplift of three notches in the MDB's "estimated borrower quality," like Fitch.

Specifically, Moody's proposes that for MDBs with operations heavily geared toward sovereigns (typically more than 75 percent of total development assets) it should use a PCS uplift to its estimate of average borrower credit quality. If (1) the MDB has a track record of no arrears or (2) the supranational is being paid despite the borrower's defaulting on other creditors, Moody's proposes typically to incorporate some uplift, by one "alpha score maximum (e.g., from

15 Moody's, *MLI Rating Criteria for Multilateral Development Banks and Other Supranational Entities* (September 17, 2018) p. 12, http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1137185.

B to Ba)”¹⁶—that is, three notches—to its estimate of borrower credit quality.

The RFC also proposes to include as nonperforming assets impairments or losses on equity investments and called guarantees.¹⁷ Furthermore, Moody’s proposes to shift from the seven-year average to the weaker of (1) the NPL ratio based on the most recently reported annual period and (2) the average ratio for the three most recently reported annual periods.

Moody’s has yet to finalize and publish its new criteria after the RFC as of this writing.

FITCH CRITERIA—2005 TO PRESENT

Fitch Cites PCS as Far Back as in Its 2005 Criteria

Per Fitch’s 2005 supranationals criteria (p. 1), “Fitch uses the ratio of usable capital to required capital” for MDBs, where (1) “usable capital is defined as shareholders’ equity plus callable capital of non-borrowing member countries and countries rated ‘AA–’ or higher” and (2) “required capital is equal to the expected loss of an MDB’s entire

portfolio. To compute this figure, Fitch uses the default probabilities associated with the ratings of the Banks’ assets, with a credit uplift to reflect the MDB’s preferred creditor status.” This is done, as the report notes on page 7, “by adding three notches to the rating of sovereign exposures,” with the uplift assessed on a country-by-country basis.¹⁸

The use of the three-notch upgrade for PCS by Fitch is thought to have originated as early as 2000 and continues to be used today. The ratio of “usable capital” to “required capital” initiated then had continued until about five years ago. In May 2012, Fitch introduced a scoring model for the first time when it also moved the term “required capital” and the synonymous term “expected loss” outside the scoring model to Appendix 2, a practice it continued until 2015, after which it dropped all three terms. Instead, the scorecard used the ratios of (1) “shareholders’ equity” (newly defined to exclude callable capital entirely) to total assets and (2) paid-in capital to subscribed capital. Fitch intended this change to signal its greater focus on paid-in capital at a time of an increasing reliance by MDBs on callable capital, with less and less being paid in.¹⁹

16 Moody’s, *Request for Comment on Proposed Update: Multilateral Development Banks and Other Supranational Entities* (January 4, 2019), 9, https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1147817.

17 Under the September 2018 Moody’s criteria, the numerator includes loans and loan guarantees with interest or principal payments overdue by 90-plus days to ensure comparability across entities, excluding the performance of equity investments, which the RFC proposes to include.

18 FitchRatings, *Multilateral Development Banks: Rating Criteria and Industry Review* (June 2005), [http://globalclearinghouse.org/infradev/assets/10/documents/Fitch%20-%20Mutlilateral%20Development%20Banks%20Rating%20Criteria%20and%20Industry%20Rreview%20\(2005\).pdf](http://globalclearinghouse.org/infradev/assets/10/documents/Fitch%20-%20Mutlilateral%20Development%20Banks%20Rating%20Criteria%20and%20Industry%20Rreview%20(2005).pdf).

19 Based on a recent conversation with Eric Paget-Blanc, a Fitch executive.

The terms “expected loss” and “required capital” when used (roughly from 2005 to 2015) were justified by Fitch as follows: “the MDB sector is increasingly using the term ‘required capital’ to monitor and report the level of capital relative to risks. For loans, guarantees and debt securities, the required capital is expected credit loss (ECL) defined as the exposure at risk (EAD) times the default probability (PD) times the loss-given default (LGD). *To take into account preferred-creditor status, Fitch notches up the ratings of loans to or guaranteed by sovereigns by three notches.* The rationale for the three-notch uplift rests on a statistical analysis on sovereign defaults to supranational institutions conducted by Fitch”²⁰ (emphasis added).

The required capital-to-expected loss ratio was in effect a simple capital model but did not take account of correlations or unexpected losses and did not use Monte Carlo simulations, which are widely used in economic capital models but are computationally difficult. The ratio was dropped after 2015 when the agency moved to a regulatory-style building block method for what it calls the intrinsic rating of an MDB, based on the lower of its solvency assessment (as adjusted for operating environment)

and liquidity assessment, with a possible uplift for shareholder support.

Fitch’s latest supranationals criteria—published in May 2018—continue the maximum three-notch uplift for the average rating of sovereign loans and guarantees.²¹ But Fitch for the first time bases the uplift on a four-point assessment of the MDB’s PCS: an excellent PCS merits a three-notch uplift, a strong PCS a two-notch uplift, a moderate PCS a one-notch uplift, and a weak PCS no uplift.

The agency notes in the 2018 criteria that a three-notch uplift would typically be assigned to those MDBs having not only a strong record of low relative default rates on sovereign loans but also a very low share of nonsovereign exposure in their portfolios.

Fitch Study on Preferred Creditor Status (October 2018)

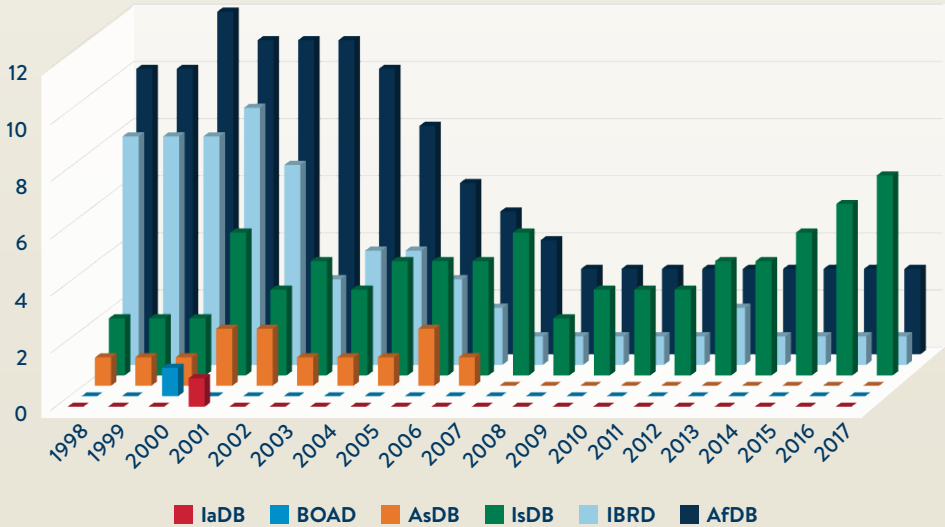
In October 2018, Fitch published a report surveying the PCS for selected MDBs. It plans to update its MDB criteria in 2019 and could apply more specific metrics to PCS assessments by country and/or MDB based on the study.

The study finds that the strength of PCS “varies across MDBs, and also

20 FitchRatings, *Supranationals Rating Criteria* (May 22, 2014), 12, <https://www.fitchratings.com/site/re/748877>. This period also reflected a subtle shift from an uplift of the rating of “sovereign exposures” on a country-by-country basis to an uplift of the “ratings of loans to or guaranteed by sovereigns by three notches” on a portfolio basis, partly for computation ease.

21 FitchRatings, *Supranationals Rating Criteria* (May 24, 2018), <https://www.fitchratings.com/site/re/10031448>.

FIGURE 1.
SOVEREIGN DEFAULTS TO MDBS, 1998 TO 2017



SOURCE: Reproduced from FitchRatings, *Preferred Creditor Status* (October 11, 2018), 9, <https://www.fitchratings.com/site/re/10048061>.
AfDB = African Development Bank; IBRD = International Bank for Reconstruction and Development; IsDB = Islamic Development Bank; AsDB = Asian Development Bank; BOAD = West African Development Bank; laDB = Inter-American Development Bank.

evolves over time” (see the reproduced chart in figure 1).²² Specifically:

- Fitch finds clear differences between MDBs in terms of repayment performance, with the AfDB and the Islamic Development Bank more exposed to sovereign defaults than their peers.
- It finds that PCS depends in part on the credit quality of the borrower.

- It notes that sovereign defaults depend also on funds received by a sovereign entity via the Heavily Indebted Poor Countries (HIPC) Initiative, the lender’s soft loan window, or other sources to cure defaults.

To assess capital adequacy, Fitch looks not only at PCS but also at concentration risks, impaired loans, and the share of equity risks and compares asset quality to the level of capital.

²² Ibid. The variation in sovereign defaults shown in this figure could result from economic or political stress, volatility in ratings and their associated probabilities of default, or variation in PCS.

CONCLUSIONS ON THE IMPACT OF PCS/PCT ON RATINGS

PCT or PCS has been an established feature of supranational credit analysis, but its impact on ratings has grown for all three rating agencies. S&P's quantitative approach of 2012 was criticized as overly conservative. Its December 2018 criteria are less severe, but their impact has yet to be fully felt: S&P now may uplift an individual sovereign rating by up to four (rather than three in the past) notches to apply the PDs and RWs for the RAC ratio.

This compares with a PCS uplift of three notches for a long time by Fitch,

first on a country-by-country basis and then for the average borrow rating. Moody's has proposed for the first time a similar uplift of an MDB's average borrower rating of up to three notches in its January 2019 RFC, departing from its use of a seven-year NPL ratio that it thought captured PCS.

With a modest easing of highly conservative rating criteria, S&P may attract new MDB rating mandates.²³ But the upgrade of the Central American Bank for Economic Integration (CABEI) from A+ to AA on account of improved PCT²⁴ and a downgrade of the Corporación Andina de Fomento (CAF) from AA- to A+ on account of deteriorating PCT²⁵ suggest that S&P ratings volatility for

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- 23 The 2018 S&P criteria may lead African subregional MLIs (e.g., West African Development Bank, Afreximbank, and Trade and Development Bank) to consider S&P ratings, which they currently do not have. The PCT of such institutions can be strong because (1) the member states of the subregional MDBs typically have a larger percentage shareholding than they do in regional or global MDBs, (2) the share of multilateral debt of member states sourced from the subregional MLI they own is likely to be comparable to that from the regional or global MLIs, and (3) member states are likely to feel a greater degree of commitment to pay “our bank.”
- 24 CABEI's S&P rating was upgraded by two notches from A+ Positive to AA Positive on account of “solid preferred creditor treatment” that is “reflected in an improved enterprise risk profile, which supports the bank's capital position.” The bank has been successful in expanding its mandate and increasing its membership base with the most recent incorporation of the Republic of Korea. CABEI is now the highest-rated credit in Central and Latin America.
- 25 Reflecting the conditions in Venezuela, the S&P rating of CAF was one of the first to be reviewed under the new criteria and was downgraded to A+ Negative from AA-, reflecting S&P's revised criteria for rating multilaterals combined with its expectation of weakened PCT as conditions in Venezuela—one of CAF's largest borrowers—continue to deteriorate.

subregional MDBs may in the future be highly sensitive to changes in PCT.²⁶

Implications for MDBs

The top credit ratings of MDBs are critical for their continued market access at low rates. Given the greater role of PCT and PCS now for all three rating agencies, MDBs need to pay more attention to safeguarding their preferred creditor status or treatment. So MDBs need to reduce chronic arrears from such countries as Zimbabwe, among others, as principal and interest past due may both be counted as arrears, as S&P does.

On the horizon also lurk shifts by all three rating agencies to more conservative metrics for liquidity risk assessments of MDBs.

A benefit of a granular capital adequacy assessment using PCT, SNC, and other quantitative measures has been the ability of some MDBs to engage in balance sheet management transactions, the role of which is likely to grow given a greater interest by major donors and shareholders in sustaining MDB lending for longer without the need for capital increases. But the cost is potentially higher MDB ratings volatility.

26 By April 12, 2019, S&P had applied its new criteria to all 32 supranationals it rates (see the S&P repost of April 12, 2019, “What Our New Criteria Has Meant for Multilateral Lending Institutions” at https://www.capitaliq.com/CIQDotNet/CreditResearch/RenderArticle.aspx?articleId=2195924&SctArtId=469879&from=CM&ns_l_code=LIME&sourceObjectId=10944829&sourceRevId=1&fee_ind=N&exp_date=20290414-14:50:53). Rating upgrades or downgrades totaled seven (or 22 percent), and with three rating outlook changes, rating actions affected nearly a third of 32 S&P MDB ratings, mostly based on PCT. There were four upgrades of which three were largely from S&P’s revised approach to PCT: CABEI was upgraded to AA Positive from A+ Positive, the Council of Europe Development Bank to AAA from AA+ Positive, and the Eurasian Development Bank to BBB Stable from BBB-. Only the International Investment Bank was upgraded to A- Stable from BBB+ on account of factors unrelated to PCT (better governance). There were three downgrades. CAF was downgraded from AA- Negative to A+ Negative on expectation of weakened PCT. The Islamic Corporation for the Development of the Private Sector was downgraded to A Negative from A+ Stable and the Arab Investment and Export Credit Guarantee Corporation, Dhaman, from AA to AA- Stable. Both actions were driven by issuer-specific reasons rather than PCT. S&P changed the outlooks on three supranationals; BSTDB was reaffirmed at A- with outlook upgraded to Positive from Stable on account of a potentially stronger policy role with a new expansion strategy. The outlook on FONPLATA was revised to Positive from Stable on its improving governance structure and strengthening enterprise risk profile, while the negative outlook on FLAR was related to the mounting credit risk from exposure to Venezuela and the implications for its PCT. The remaining S&P’s MDB ratings (22 of 32) were reaffirmed.