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## Japan's Aichi, Osaka, And Yokohama Downgraded To 'A+/A-1', Tokyo To 'A+', After Sovereign Downgrade; Outlooks Stable

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- On Sept 16, 2015, we downgraded our sovereign credit ratings on Japan to 'A+/A-1' from 'AA-/A-1+'. The outlook on the long-term sovereign credit rating is stable.
- Therefore, we are downgrading TMG, Aichi Prefecture, Osaka City, and Yokohama City to reflect the sovereign ratings on Japan because we believe the creditworthiness of Japanese LRGs would be strongly affected under a stress scenario in which the sovereign defaults.

TOKYO (Standard & Poor's) Sept. 17, 2015--Standard & Poor's Ratings Services today said that it has lowered its long-term issuer credit and debt ratings on Tokyo Metropolitan Government, Aichi Prefecture, Osaka City, and Yokohama City to 'A+' from 'AA-' to reflect our lowering of the sovereign credit ratings on Japan to 'A+/A-1' from 'AA-/A-1+' (see "Japan Ratings Lowered To 'A+/A-1'; Outlook Is Stable," published Sept. 16, 2015). The outlooks are stable. We also lowered our short-term issuer credit ratings on Aichi, Osaka, and Yokohama to 'A-1' from 'A-1+'.

The rating actions on the four local and regional governments (LRGs) reflect our sovereign ratings on Japan because we believe Japanese LRGs would be strongly affected by a stress scenario in which the sovereign defaults. TMG has the strongest tax base and the healthiest financial profile of any of Japan's rated LRGs. Nonetheless, we believe the possibility of the ratings on Japan's LRGs exceeding the sovereign ratings is remote and the sovereign is likely to constrain the ratings on LRGs given their financial inflexibility due to their centralized tax structure and rigidly defined mandatory expenses.

LRGs rely heavily on financing in the domestic bond market, the viability of which is fundamentally rooted in market confidence in Japanese government bonds. Given Japanese LRGs' generally high levels of debt, a stressed banking system under a sovereign default scenario would likely exert extreme pressure on the timeliness of their debt repayments. In light of these elements, we believe the ratings on Japan's LRGs would not exceed the sovereign ratings on Japan unless the operating environment changes drastically to allow LRGs autonomous and independent financial management.

The stable outlooks on the four LRGs reflect the outlook on the long-term sovereign rating on Japan. In our view, the chance of a Japanese LRG being rated above the sovereign is remote, thereby limiting the likelihood of an upgrade of these four LRGs unless the sovereign rating is upgraded. We also believe each LRG continues to face a limited possibility of being downgraded other than as a result of a negative rating action on the sovereign. We incorporate central government support for LRGs into our ratings on them. Changes in our sovereign ratings on Japan may affect the institutional framework in which the LRGs operate, although we believe the impact of such change on our ratings on the four LRGs would be limited.

#### RATINGS LIST

##### Ratings Lowered; Outlook Action

	To	From
Tokyo Metropolitan Government		
Issuer Credit Rating	A+/Stable/--	AA-/Negative/--
Senior unsecured debt	A+	AA-
Aichi (Prefecture of)		
Issuer Credit Rating	A+/Stable/A-1	AA-/Negative/A-1+
Senior unsecured debt	A+	AA-
Osaka (City of)		
Issuer Credit Rating	A+/Stable/A-1	AA-/Negative/A-1+
Senior unsecured debt	A+	AA-
Yokohama (City of)		
Issuer Credit Rating	A+/Stable/A-1	AA-/Negative/A-1+
Senior unsecured debt	A+	AA-

#### Related Criteria

- Methodology For Rating Non-U.S. Local And Regional Governments, June 30, 2014

#### Related Research

- 2014 Annual International Public Finance Default Study And Rating Transitions, June 8, 2015
- Public Finance System Overview: Japanese System For Prefectures And Cities Is Predictable And Well-Balanced, Nov. 13, 2013

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