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Criteria | Corporates | Request for Comment:

Request For Comment: Reflecting Subordination Risk In The Issue Ratings Of Corporate Issuers

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Request For Comment: Reflecting Subordination Risk In The Issue Ratings Of Corporate Issuers

1. S&P Global Ratings is requesting comments on proposed changes to its methodology for rating the debt of investment-grade corporate issuers and some speculative-grade corporate issuers.

2. We intend the proposed criteria to enhance the comparability and transparency of our issue credit ratings.

3. If adopted, the proposed criteria would supersede our current criteria for issue credit ratings, "2008 Corporate Criteria: Rating Each Issue," published April 15, 2008, as well as several other criteria articles listed in the section Related Criteria And Research.

SCOPE AND OVERVIEW

4. We would use these proposed criteria to determine issue credit ratings for debt of issuers whose long-term issuer credit ratings (ICRs) we derive using one of our corporate ratings methodologies. These issuers include:

- Investment-grade (that is, a global scale ICR of 'BBB-' or higher) nonfinancial corporate issuers. These include national scale issuers, when the national scale rating on the issuer maps to an investment-grade rating on the global scale (see "S&P Global Ratings' National And Regional Scale Mapping Tables," published June 1, 2016).
- Speculative-grade (that is, a global scale ICR of 'BB+' or lower) nonfinancial corporate issuers domiciled in countries where we do not assign a jurisdiction ranking assessment or where we assign a jurisdiction ranking assessment of Group C (see "Methodology: Jurisdiction Ranking Assessments," published Jan. 20, 2016). These proposed criteria would also apply to national scale issuers domiciled in Group C and in unranked jurisdictions, whose creditworthiness maps to speculative-grade ratings on the global scale. Finally, our proposed criteria would apply to speculative-grade issuers in any Group A or B jurisdictions where we do not apply our recovery rating methodology.
- Certain financial issuers as detailed in the criteria article "Issue Credit Rating Methodology For Nonbank Financial Institutions And Nonbank Financial Services Companies," published Dec. 9, 2014.

5. For those issuers or debt classes not in scope of this request for comment see Appendix 7: Scope Exclusions.

Key Publication Dates

- Original publication date: May 9, 2017
- Response deadline: June 6, 2017
- Effective date: Immediately upon publication of the final criteria
- These criteria address the fundamentals set out in "Principles of Credit Ratings," published on Feb. 16, 2011.

6. We are proposing several revisions to our current methodology, primarily to improve the transparency and comparability of our issue credit ratings. The major proposed changes are as follows:

- Under the proposed methodology, we would determine if an issue credit rating should be lower than the ICR (often referred to as "notching down" from the ICR) due to significant subordination, by assessing the relative seniority or ranking of all the debt of the issuer's group. This is in contrast to the current criteria, which measures debt subordination by assessing the seniority of debt and nondebt claims (for example, trade payables, unfunded pension liabilities, derivatives, lease obligations).
- We primarily intend the proposed methodology to signal subordination risk for a rated debt instrument for an issuer with a significant proportion of more senior debt. We would assess seniority with respect to security (collateral) or proximity to cash flow generating assets. Therefore, the proposed criteria assess the seniority of the rated debt in the issuer's consolidated capital structure relative to the standing of other debt in the same consolidated structure. On the other hand, the current criteria compare the value of the issuer's total consolidated assets to its obligations that rank senior to the debt to be rated, to determine whether that debt's degree of subordination is sufficiently large to notch the issue credit rating below the ICR, signaling subordination risk. Under the proposed criteria, we would no longer assess the level of asset protection because we expect that if an issuer was to default, such protection would change significantly and in a way that is difficult to predict.
- Under the proposed methodology, notching down the debt of in-scope speculative-grade companies (those are usually domiciled in Group C or unranked jurisdictions) would be limited to one notch for subordination risk, compared with the possibility of as much as two notches under the current criteria. Such issuers and their creditors, including investors in hybrid capital (see the section Related Criteria And Research), face a high level of legal uncertainty, which we believe limits the possibility of differentiating degrees of subordination in these jurisdictions.
- Under the proposed methodology, downstream loans from a holding company to an operating company within the same group would no longer be a potential mitigating factor to subordination risk, unless there are upstream guarantees from the operating company to its parent holding company. We believe that downstream loans may be invalidated in the bankruptcy process, rendering downstream loans potentially ineffective mitigants to structural subordination.
- Under the proposed methodology, a high concentration of debt would no longer be a potential mitigating factor to subordination. That's because insufficient evidence exists showing that this factor systematically and consistently mitigates subordination risk.
- Under the proposed methodology, we would not notch up debt with the exception of Japanese corporate debt that is impacted by loan waivers. However, notching up is still possible for debt issued by certain sectors or industries, as detailed in Appendix 7: Scope Exclusions.

QUESTIONS

7. S&P Global Ratings is seeking market feedback on its proposed methodology, and responses to the following questions:

- Is the proposed methodology sufficiently clear and transparent in explaining the process of determining issue credit ratings? If not, which areas would benefit from greater clarity?
- What is your view about the proposed exclusion of nondebt claims such as unfunded pension liabilities, derivatives, and lease obligations in the analysis?
- What is your view about the proposed treatment of non-recourse debt?
- What is your view about the proposed treatment of debt issued by a parent company compared with that issued by an operating company? That is, do you think that senior unsecured lenders to a holding company are at a disadvantage relative to senior unsecured lenders to an operating company that the holding company owns? Do you think there are any limitations to this assumption?

- What is your view about the proposed 50% threshold for notching down due to subordination risk?
- What is your view about the proposed mitigants to subordination risk?
- What is your view about the proposed exclusion of downstream loans as a mitigant to structural subordination?
- What is your view about the proposed treatment of debt issued by companies domiciled in Group C jurisdictions?
- What is your view about the proposed treatment of debt issued by government-related entities with "almost certain" or "extremely high" levels of assumed extraordinary government support?

IMPACT ON OUTSTANDING RATINGS

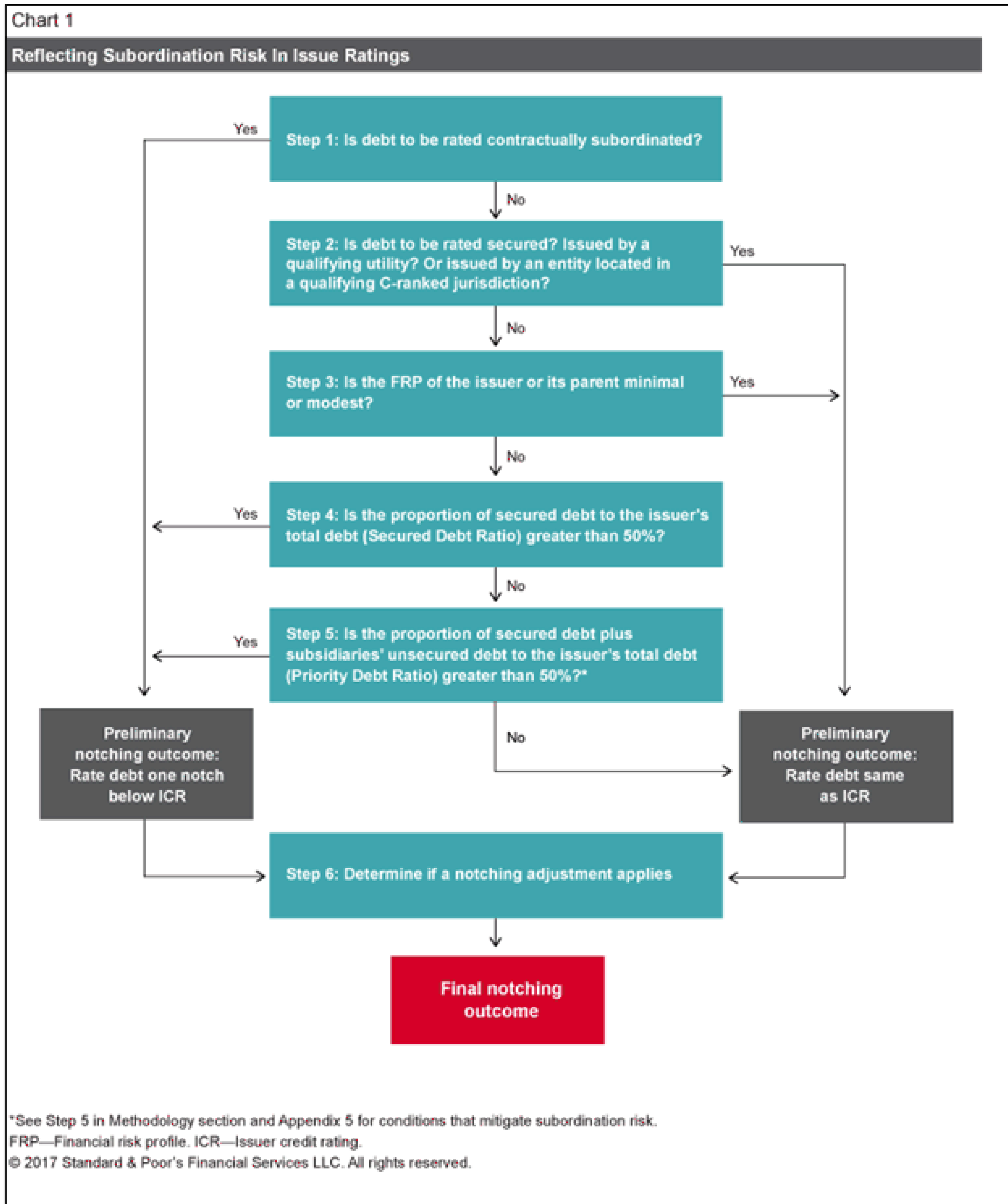
8. We expect up to 10% of in-scope issuers to see a ratings change in one or more of their rated debt issuances. Of the issue credit ratings that could change, we expect the overwhelming majority to change by one notch, with roughly twice as many downgrades as upgrades.

RESPONSE DEADLINE

9. We encourage interested market participants to submit their written comments on the proposed criteria by June 6, 2017, to http://www.standardandpoors.com/en_US/web/guest/ratings/rfc where participants must choose from the list of available Requests for Comment links to launch the upload process (you may need to log in or register first). We will review and take such comments into consideration before publishing our definitive criteria once the comment period is over. S&P Global Ratings, in concurrence with regulatory standards, will receive and post comments made during the comment period to www.standardandpoors.com/en_US/web/guest/ratings/ratings-criteria/-/articles/criteria/requests-for-comment/filter/all#rfc. Comments may also be sent to CriteriaComments@spglobal.com should participants encounter technical difficulties. All comments must be published but those providing comments may choose to have their remarks published anonymously or they may identify themselves. Generally, we publish comments in their entirety, except when the full text, in our view, would be unsuitable for reasons of tone or substance.

PROPOSED METHODOLOGY

10. The proposed methodology will differentiate the issue credit ratings of debt that are materially subordinated to other better-positioned or more senior ranking debt.
11. If a debt instrument is significantly subordinated to other debt, we signal its relative disadvantage by notching the issue credit rating down once from the ICR.
12. Our proposed notching analysis framework comprises six steps (see chart 1).



13. The proposed criteria outline our methodology for assigning issue credit ratings that signal whether certain debt could potentially be significantly subordinated relative to other debt in the issuer's consolidated capital structure. Our methodology does not model a specific bankruptcy scenario and postdefault recovery amounts because the nature of

such hypothetical developments is too uncertain to reliably forecast, especially for investment-grade issuers that are far from a potential default.

14. To apply these proposed criteria to groups, we use the same scope of consolidation analysis as defined in "Corporate Methodology: Ratios And Adjustments," published Nov. 19, 2013, with the exception of hybrid debt and non-recourse debt, as explained in Appendix 8: Definitions and Appendix 6: Non-Recourse Debt, respectively. For a group that issues debt from more than one issuer, the six steps described below would be applied to each class of debt to be rated at each entity.

- Step 1: Determine if the debt to be rated is contractually subordinated.

15. We typically notch the issue credit rating of contractually subordinated debt down once from the ICR to signal the higher risk that this class of debt carries relative to more senior debt. Contractually subordinated debt ranks below other debt regarding claims against the issuer's assets, due to provisions in the debt instrument's documentation. When creditors explicitly agree to rank junior to other creditors, they have accepted a relatively higher risk of loss on their investment.

- Step 2: Determine if the debt to be rated is secured.

16. Secured debt is better positioned than unsecured debt because of the additional protection that the security may provide (see our definition of secured debt in Appendix 8: Definitions). We reflect the secured lenders' priority relative to other lenders by rating the secured debt at the same level as the ICR.

- Step 3: Determine if the issuer's leverage is sufficiently low to offset potential subordination.

17. If an issuer is relatively lowly leveraged, it is less likely that the debt to be rated would be significantly disadvantaged to more senior debt.

18. We consider that issuers whose financial risk profile (FRP) assessment is "minimal" or "modest" (as defined in one of our corporate methodologies such as "Corporate Methodology," published Nov. 19, 2013) have leverage that is low enough to limit the possibility of any lenders being significantly disadvantaged relative to other lenders. In such a case, we would typically rate the debt of such issuers at the same level as the ICR of the issuer.

19. For the purpose of applying the rule in the preceding paragraph, for issuers that are members of groups (see "Group Rating Methodology" [GRM], published Nov. 19, 2013), we will use either the FRP of the ultimate parent or of the issuer itself, depending on the issuer's importance to the group's identity and strategy. If the issuer's group status, as reflected in its GRM classification, is "core" or "highly strategic," we would use the FRP of the group. If the issuer's group status is "strategically important," "moderately strategic," or "nonstrategic," we would use the FRP of the issuer's stand-alone credit profile (see "Stand-Alone Credit Profiles: One Component Of A Rating," published Oct. 1, 2010).

20. If the entity does not have an FRP assessment because we derive the ICR from a methodology that does not incorporate a FRP, we proceed to step four.

- Step 4: Determine if there is a significant proportion of secured debt in the issuer's consolidated capital structure, by calculating the secured debt ratio.

21. The secured debt ratio is used to determine if there is a significant proportion of secured debt in an issuer's consolidated capital structure--that is, when the secured debt comprises more than 50% of the issuer's total consolidated debt--we consider that the unsecured debt is inherently disadvantaged because the secured lenders have priority over the unsecured lenders.

22. If the secured debt ratio is more than 50%, we would we view the remaining unsecured debt as likely to be significantly disadvantaged, and reflect this by rating the unsecured debt one notch below the ICR.

- Step 5: Determine if the total secured debt issued by the issuer and its subsidiaries--combined with the unsecured debt issued by the subsidiaries of the issuer--comprises more than half of total consolidated debt, by calculating the priority debt ratio.

23. The priority debt ratio is used to determine if there is a significant proportion of total consolidated debt issued by the issuer's subsidiaries. If subsidiary debt is significant, we believe that lenders to the issuer of the debt to be rated could be meaningfully structurally subordinated if the group's income-generating assets are located in subsidiary operating companies, rather than at the level of the issuer of the debt to be rated.

24. If the priority debt ratio is more than 50%, we would consider the issuer's unsecured debt to be subordinated, and rate it one notch lower than our ICR on the issuer. The existence of one or more of the following conditions mitigate subordination risk identified in Step 5:

- The issuer owns operating assets that generate 30% or more of the issuer's and its subsidiaries' consolidated earnings, cash flow, or a similar financial metric; or
- Guarantors that provide qualifying upstream guarantees of the total debt to be rated (see the section Upstream Guarantees) generate at least 30% of the issuer's and its subsidiaries' consolidated earnings, cash flow, or a similar financial metric; or
- More than 30% of the issuer's and its subsidiaries' consolidated earnings, cash flow or other financial metric are generated by a combination of the issuer's own operating assets and that of subsidiaries that guarantee the debt; or
- The issuer is a well-diversified company (see Appendix 3: Diversified Issuers).

25. If the priority debt ratio is less than 50%, then the preliminary notching outcome is the same as our ICR on the issuer. If the priority debt ratio is more than 50%, and none of the conditions in paragraph 24 are met, the preliminary notching outcome is one notch below the ICR.

26. We typically treat the debt issued by subsidiaries that are financing vehicles as if it were issued by their immediate parent (i.e. the owner of the financial vehicle). We consider financing vehicles to be entities that exist solely to issue debt on behalf of their immediate parent and that do not own any operating assets or shares in operating subsidiaries. The ICR on the parent is typically the reference point in determining the issue credit ratings of debt issued by such financing vehicle subsidiaries.

- Step 6: Determine if a notching adjustment applies.

27. In the vast majority of cases, the preliminary notching outcome will be the final notching outcome. However, in rare situations, we may adjust the preliminary notching outcome if we believe that such an outcome does not fully capture the debt's relative subordination or, alternatively, priority ranking. We expect to apply this adjustment rarely and only

in cases where we strongly believe that conditions support a final notching outcome that is different than the preliminary outcome. If we adjust the preliminary notching outcome, the final notching outcome will result in an issue credit rating in line with, or one notch below, the ICR. The following represent examples of when we could use this adjustment, but they do not constitute an exhaustive list of potential applications of the notching adjustment:

- A holding company and its operating subsidiary both have the same ICR. The holding company issues senior unsecured debt and the operating subsidiary issues a relatively small amount of contractually subordinated debt. According to our proposed framework, we would typically rate the subsidiary's debt one notch lower than its ICR and the holding company's debt at the same level as the ICR. However, if, in our judgment, the contractually subordinated lenders would be in a favorable position relative to the holding company's senior unsecured lenders because of their proximity to the group's cash flows, we could rate the contractually subordinated debt at the same level as the ICR.
- An issuer has a significant nondebt financial liability on its balance sheet, such as a large provision for litigation or a highly significant asset retirement obligation. If we believe that nondebt liabilities are highly likely to put creditors of the rated debt in a relatively disadvantaged position, we could apply this adjustment, and rate the debt one notch below the ICR.

UPSTREAM GUARANTEES

28. Guarantees extended by subsidiaries to parent level debt (i.e., upstream guarantees) may overcome structural subordination by putting the claims of parent company creditors pari passu with those of operating company creditors.

29. The two main potential risks to upstream guarantees are:

- A court may consider an upstream guarantee to be invalid due to a lack of consideration, for example, if the subsidiary did not receive equivalent value in return for granting its guarantee; or
- A court may consider that the guarantee has created a "fraudulent conveyance" or "preferential payment," if it deems the guarantee to have been granted to hinder or defraud certain creditors or if the subsidiary was insolvent at the time it granted the guarantee. This could happen, for example, if the parent and subsidiaries file for insolvency proceedings soon after the subsidiaries grant the upstream guarantees. Different jurisdictions typically have different look-back time periods from the time of a bankruptcy filing to determine whether an entity was insolvent prior to a bankruptcy filing. The look-back period is often one to two years.

30. For us to consider an upstream guarantee to be sufficiently able to mitigate notching of parent level debt vis-à-vis operating level debt, we generally require that the guarantee be unconditional, irrevocable, and that it meets at least one of the following conditions, subject to relevant jurisdiction-specific considerations:

- The proceeds of the guaranteed obligation are downstreamed to the guaranteeing subsidiary/subsidiaries as an equity infusion or as a loan, thereby benefiting the subsidiary/subsidiaries that issued the guarantee(s).
- The subsidiary is considered to be solvent at the time of granting the guarantee. For example, our view of the guarantor's creditworthiness was equivalent to at least a 'B-' global scale ICR, at the time the guarantee was put in place.
- We rate the transaction after the legal look-back risk period in connection with fraudulent conveyance in the given jurisdiction. For example, in the U.S., the period is now 90 days (one year for insider transactions). So if we are rating a transaction 90 days (or one year for insider transactions) after the upstream guarantees were put in place,

we would consider this condition to be met.

- We have a legal opinion from outside counsel that the upstream guarantees are valid.
- On a jurisdiction-by-jurisdiction basis, we may determine different factors that can reduce, or that are required to reduce, risks in connection with the validity of upstream guarantees from subsidiaries.

APPENDIXES

1. Notching Of Investment-Grade Regulated Utilities' Senior Unsecured Debt

31. We equalize the issue credit ratings on the unsecured debt of regulated investment-grade utility operating companies with their ICRs, to reflect our view that these unsecured lenders are not significantly disadvantaged compared with more senior lenders. This approach does not affect the unsecured issue credit ratings at unregulated parent holding companies or unregulated affiliates that issue unsecured debt. Nor does this approach apply to contractually subordinated debt, which we generally rate one notch below the ICR (subject to the potential application of a notching adjustment).

32. The equalization of the issue credit ratings to the ICR of these utility companies is supported by empirical data and applies in the following circumstances:

- The issuer is a regulated utility that offers an essential or near-essential infrastructure product, commodity, or service with little or no practical substitute; has a business model that is shielded from competition; and is subject to either comprehensive regulation by a regulatory body or to implicit oversight of its rates or tariffs, service quality, and terms of service. The regulators set rates based on some form of cost recovery, including an economic return on assets, rather than relying on a market price.
- The utility is subject to regulatory constraints on its ability to add debt, which in our judgment would result in higher average recovery rates for unsecured creditors.
- The utility's mortgage indenture restricts the issuance of secured debt. As a result, we expect the amount of secured debt (including utility first mortgage bonds), to be less than 70% of the book value of the utility's net property plant and equipment.

33. These industry-specific factors indicate that we can reasonably anticipate relatively good recovery rates for regulated utilities' unsecured debt. If the utility does not meet the above conditions, the debt to be rated will be analyzed according to the proposed methodology.

34. In rare situations, we may choose to rate regulated utilities' senior unsecured debt one notch below our ICR on the issuer, even if the conditions in paragraph 32 are met, if we believe that the notching down more appropriately captures the relative subordination of the debt. We expect to apply this adjustment very rarely and only in cases where we strongly believe that the equalization of the issue credit rating and the ICR does not adequately reflect the subordination risk.

2. Implications Of Bank Loan Waivers For Issue Credit Ratings of Japanese Corporates

35. Loan waivers, mostly in the form of debt-for-equity swaps, are sometimes extended by Japanese banks to large troubled Japanese corporate borrowers. When Japanese corporates receive loan waivers from their key lender banks, they usually continue to honor other debts on a timely basis. If S&P Global Ratings believes that other debts will continue to be honored during a loan waiver process, we may assign an issue rating above the ICR to these debt obligations. Although we have observed fewer loan waivers by Japanese banks in recent years than in the early 2000s, we still expect these waivers to benefit the other creditors of some Japanese corporates in the future.

36. Generally, we are more likely to assign an issue credit rating above the ICR to debt obligations that we expect to be honored during a loan waiver, when:

- The ICR is low. Only companies with speculative-grade ICRs may benefit from upward rating adjustments due to our anticipation of a loan waiver.
- The company is large. Historically, loan waivers are more common for large Japanese companies.
- Lender banks have a track record of providing support. This support may include rolling over short-term financing, appointing bank personnel to key management roles within the company, or assisting in business planning. Such support would likely indicate the banks' willingness to provide further support, including loan waivers if ultimately required, to keep borrowers afloat without forcing them into legal proceedings.
- The company's financial problems are largely attributable to its heavy debt burden, while its core business activities remain fundamentally sound.

37. We believe that the lower the ICR, the more pronounced the difference can be in the default probabilities of an issuer's debt instruments. However, we limit the issue credit rating to no more than two notches above the ICR if it is 'B-' or above. In addition, issue credit ratings that are notched up due to our expectation of a loan waiver do not exceed 'BB+'. If the ICR is 'CCC+' or below, and we are highly confident that a loan waiver will occur without the company defaulting on its other debt, the issue credit rating uplift may exceed two notches, but the issue credit rating would not exceed 'B+'.

38. We also consider potential notching down for Japanese companies' debt issues according to the proposed methodology as described in the Methodology section. To rate the debt issue, any downward notching due to subordination risk will be netted against any potential upward notching arising from expected loan waivers, as described in this section.

39. When a rated borrower receives a loan waiver, we revise the ICR to selective default ('SD'; see "Rating Implications Of Exchange Offers And Similar Restructurings, Update," published May 12, 2009).

3. Diversified Issuers

40. An issuer's business or geographic diversity may improve the prospect of the residual value remaining for creditors because the company's individual subsidiaries could retain value differently based on their distinct businesses, some with shortfalls and others with surpluses. Diversity could mitigate subordination when there are no cross guarantees

(or similar cross support mechanisms) between the subsidiaries and:

- Under our "Corporate Methodology," published Nov. 19, 2013, we assess the company's diversification/portfolio effect as "moderately diversified" or "significantly diversified"; or
- The issuing entity has subsidiaries in at least three regions; or the issuing entity has subsidiaries in at least three countries and we believe these countries to have low economic correlation. In addition, we believe that each of these subsidiaries (whether regional or by country) generates at least 10% and no more than 50% of the issuer's EBITDA or cash flow.

41. Diversity is likely to mitigate subordination when we have no information that leads us to believe that the current diversification benefits will dissipate in the foreseeable future, for example, because of a contemplated asset sale. If diversity is expected to diminish such that the conditions above are no longer met, we would not incorporate any benefit in our analysis.

42. For issuers that meet the conditions in paragraphs 40 and 41, a more liberal priority debt ratio may be applied to reflect the benefit the diversity of assets might provide. For such issuers, we may notch down for subordination risk if the priority debt ratio exceeds 75%.

4. Notching Of Debt Issued By Companies Domiciled In Group C Jurisdictions

43. We generally equalize the issue credit ratings with the ICRs for all issuers located (or issuers with the majority of their asset located) in certain Group C-ranked jurisdictions (see "Methodology: Jurisdiction Ranking Assessments," published Jan. 20, 2016) where we expect bankruptcy proceedings will occur, subject to meeting all of the following conditions:

- Our rule-of-law risk assessment is '4', '5', or '6';
- Our creditor-friendliness assessment is '4' or '5'; and
- The creditor-friendliness subfactor "Conformity of the distribution of proceeds to legal rankings of claims" is scored as negative.

44. In rare situations, we may still choose to rate a given debt issuance one notch below our ICR on the issuer, even if the conditions above are met, if specific terms or characteristics of the debt lead us to believe that notching down more appropriately captures the relative subordination of the debt.

5. Notching Of Debt Issued By Government-Related Entities

45. For all government-related entities (GRE), we will notch down debt issues that are contractually subordinated or those that are disadvantaged relative to secured lenders as defined in Step 4 of the proposed methodology section. However, we would equalize the issue credit ratings with the ICR for structurally subordinated debt issues of GRES that have "almost certain" or "extremely high" levels of assumed extraordinary government support when the GRE meets at least one of the following two conditions:

- The GRE or the majority of its assets is located in certain Group C-ranked jurisdictions where we expect bankruptcy proceedings will occur and the jurisdiction's: i) Rule-of-law risk assessment score is '4', '5', or '6'; ii)

Creditor-friendliness assessment score is '4' or '5'; and iii) The creditor-friendliness subfactor "Conformity of the distribution of proceeds to legal rankings of claims" is scored as negative.

- We have concluded that the GRE would not be subject to the local insolvency regime in case of a default as discussed in the" Rating GRE debt obligations" section of "Rating Government-Related Entities: Methodology And Assumptions," published March 25, 2015.

46. This reflects our expectation that the government will heavily influence a potential debt restructuring and, as a result, we cannot reliably determine how subordination to structurally prioritized debt will impact the postdefault recovery prospects of unsecured debt holders.

6. Non-Recourse Debt

47. We generally exclude debt that is legally non-recourse to the issuing group from the secured debt ratio and the priority debt ratio calculations if all of the following conditions are met:

- The lenders do not have legal recourse to seek a claim on any entities in the issuing group, and we believe that the debt would not be consolidated in a bankruptcy;
- The debt is secured but not by working capital items, such as receivables or inventories.
- There are no loan documentation carve-out provisions or cross-default provisions that may allow non-recourse lenders to convert a loan into a full recourse loan in the event of bankruptcy or some other trigger, or that could result in debt of an entity in the issuing group being accelerated for repayment; and
- We conclude that the issuing group will not have a material economic, operational, or moral imperative to support the non-recourse debt.

7. Scope Exclusions

These proposed criteria would not apply to:

- Aircraft-backed equipment trust certificates and enhanced equipment trust certificates. We determine these issue credit ratings in accordance with "Criteria For Rating Aircraft-Backed Debt And Enhanced Equipment Trust Certificates," published Sept. 12, 2002.
- Hybrid capital instruments, preferred stock, convertible preferred, and equity units. For the methodology we use to assign ratings to hybrid capital instruments, see "Hybrid Capital Handbook: September 2008 Edition," published Sept. 15, 2008.
- Debt issued by captive finance subsidiaries. For more detailed information see "Methodology: The Impact Of Captive Finance Operations On Nonfinancial Corporate Issuers," published Dec. 14, 2015. Similarly, we would not incorporate debt issued by captive finance subsidiaries into our notching analysis of its parent's debt, according to these proposed criteria. For the methodology we use to assign ratings to debt issued by a captive finance subsidiary, see "Issue Credit Rating Methodology For Nonbank Financial Institutions And Nonbank Financial Services Companies," published Dec. 9, 2014.
- Secured and senior unsecured debt issued by companies in the real estate industry. We determine these issue credit ratings according to "Key Credit Factors For The Real Estate Industry," published Nov. 19, 2013.
- Qualifying senior secured debt issued by investment-grade and speculative-grade utilities. We determine these issue credit ratings according to "Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property," published Feb. 14, 2013.

- Structurally enhanced debt (SED) issued by regulated utilities and transportation infrastructure companies. We determine these issue credit ratings according to "Rating Structurally Enhanced Debt Issued By Regulated Utilities And Transportation Infrastructure Businesses," published Feb. 24, 2016.

8. Definitions

Debt: The proposed criteria only consider debt that we include in our assessment of the financial risk profile of the issuer, with the exception of hybrid debt, which we take at full face value, regardless of any equity content we may assign, and with the exception of non-recourse debt, which is generally excluded if it meets the conditions described in Appendix 6: Non-Recourse Debt. We also do not include adjustments for nondebt claims, such as unfunded pension liabilities, all lease obligations, and other nondebt liabilities, according to the criteria article, "Corporate Methodology: Ratios And Adjustments," published Nov. 19, 2013.

Contractually subordinated debt: Debt that, as detailed in the loan agreement or indenture, is subordinated to other debt instruments.

Issuer: The entity that is issuing the debt to be rated.

Secured debt: Generally includes debt to which the issuer (or borrower) pledges, on a first priority basis, asset(s) as collateral for the obligation. While the nature of such pledges (or security interest) can vary between legal jurisdictions, typical types of security interests include mortgages, floating charges, pledges, and senior liens.

Unsecured debt: Debt that is not defined as secured debt and that S&P Global Ratings uses to derive the FRP (see the Scope of Consolidation section in the criteria article "Corporate Methodology," published Nov. 19, 2013). Unsecured debt includes hybrid debt instruments at full face value.

Subsidiary: Any company owned (either wholly or partly) by the issuer, whose debt (either wholly or partly) is part of the scope of consolidation (see "Corporate Methodology: Ratios And Adjustments," published Nov. 19, 2013), and which is used to derive the issuer's FRP. We typically treat debt issued by subsidiaries that are pure financing vehicles—that is, entities which exist solely to issue debt on behalf of their immediate parent and that do not own any operating assets or shares in operating subsidiaries--as if it were issued by the parent.

Issuing group: Includes all entities whose debt obligations may be included in the calculation of total consolidated debt--that is to say the issuing group does not include entities that have been exclusively set up for secured non-recourse borrowings.

Total consolidated debt: Unsecured debt and secured debt issued by the issuer and its subsidiaries.

Secured debt ratio: Total secured debt in an issuer's consolidated capital structure / total consolidated debt.

Priority debt ratio: (Total secured debt in the issuer's consolidated capital structure + total unsecured debt issued by an issuer's subsidiaries) / total consolidated debt.

RELATED CRITERIA AND RESEARCH

Related criteria

- Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015

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*These proposed criteria would partially supersede the section Rating The Issue: Subordination in this article to indicate that notching for subordination risk on hybrid instruments issued by speculative-grade nonfinancial corporate issuers domiciled in countries where we do not assign a jurisdiction ranking or where we assign a ranking of C would be the same as for contractually subordinated debt under these proposed criteria.

§These criteria would partially supersede paragraph 219 of Appendix E (FAQ).

These criteria represent the specific application of fundamental principles that define credit risk and ratings opinions. Their use is determined by issuer- or issue-specific attributes as well as S&P Global Ratings' assessment of the credit and, if applicable, structural risks for a given issuer or issue rating. Methodology and assumptions may change from time to time as a result of market and economic conditions, issuer- or issue-specific factors, or new empirical evidence that would affect our credit judgment.

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