

S&P Global (China) Ratings--General Considerations On Rating Modifiers And Relative Ranking

English Summary:

SCOPE AND OVERVIEW

This methodology represents S&P Global (China) Ratings' approach to considering the impact of common rating modifiers that may influence the ultimate issuer credit rating (ICR) or issue credit rating (issue rating) that we may assign. This methodology also considers the analysis of relative ranking of different securities and the associated impact on any rating that may be assigned. This methodology may apply to all ratings where rating modifiers and relative ranking may be relevant for any rating of the securities being issued.

Typically, we consider a rating modifier, for the purposes of this methodology, to be an external factor that in our opinion can influence our ultimate view of the creditworthiness of an entity or its obligations. Those external factors may either enhance or detract from the overall creditworthiness of the issuer or issue. Therefore, they tend to modify our opinion as expressed in the final rating. This methodology considers the more typical rating modifiers we usually encounter.

This methodology outlines the principles of how we consider external factors such as group relationships, government support, counterparty financial support and guarantees, amongst other things, and how these may influence either an underlying view of creditworthiness or the ultimate rating that may be assigned.

The methodology also outlines the principles of how we consider relative ranking of a given security and the implications of the ranking or nature of that security for any rating that we may assign. Examples where relative ranking may be applicable include areas such as senior secured debt, potential recoverability, subordinated debt, tranching securitization structures, hybrid securities, senior preferred and senior unsecured obligations, amongst others.

METHODOLOGY

Rating Modifiers

The following outlines the principles that we may consider when reviewing the nature and influence of a specific rating modifier on creditworthiness, such as a stand-alone credit profile (SACP) or an issuer or issue rating.

Influence of a Group Relationship

Many issuers have complex entity structures and may have different relationships with either parents or subsidiaries. These relationships may be a credit positive or a credit negative for a

given issuer or issue. The factors that we may consider when determining the impact or otherwise of these relationships and ownership structures may include, amongst other things:

- The credit quality of any parent/subsidiary;
- Any expectations of support from a parent or other subsidiaries that may be forthcoming;
- Any expectations of negative influence such as cross default or financial demands on the issuer.

Government Related Entities

We may consider whether an entity could be the subject of government support or intervention.

In determining any impact on a rating of the entity, we may have regard to the stand-alone credit quality of the entity, the credit quality of the government expected to provide support (if applicable) and the nature of the expected support or intervention. We may adjust the rating of the entity as a result of the consideration of these factors.

Counterparty Exposure

Counterparty exposure can be an important consideration in assessing the credit risk of securitization transactions in particular, but also may be relevant for other types of securities. Counterparties may be involved in cash management, bank accounts, derivatives, and providing liquidity support, amongst other things. A counterparty's failure to perform its obligations may have implications for the performance of a security, notwithstanding the performance of the underlying assets backing the security.

In determining any impact on a rating as a result of counterparty exposure, we would typically consider the nature of the exposure and the credit quality of the counterparties, and may adjust ratings higher or lower, or not at all, compared with what the analysis of the underlying assets may suggest.

Influence of a Related Government

In determining any impact on a rating as a result of a perceived role or support expected, of a higher level of government to a lower level of government, we would have regard to the credit quality of the entity, the credit quality of the higher level of government and the nature of the expected support or intervention. We may adjust a rating as a result of the consideration of these factors.

Systemic Considerations

Some issuers or issues may benefit from intangible support as a result of its deemed relative importance to maintain ongoing operations, particularly where an entity plays an important role, for example, in terms of services, the economy, and employment. We may adjust a rating as a result of the consideration of these factors, and adjustments may be applied to either a SACP or an ICR.

Recovery

Some issuers or issues may have reasonable prospects of recoveries in the event of a default. We may consider recoverability in our analysis, where we deem it appropriate, and may adjust a rating as a result.

Guarantees

Some issuers or issues may source a guarantor to provide a guarantee of an obligation(s). We typically would review the terms and conditions of any guarantee provided and also consider the credit quality of the guarantor, and may adjust a rating as a result.

Relative Ranking

The following outlines the principles that we typically consider when reviewing the relative ranking of a given security and the implications, if any, for any rating we may assign.

Issuer Credit Rating

Typically, an ICR we may assign would coincide with our opinion of the creditworthiness of the senior unsecured debt of an issuer. However, in some instances, the ICR can differ from the rating on the senior unsecured debt.

Subordinated Debt

Some issuers may issue debt known as subordinated debt. This debt is typically contractually identified as subordinated to other types of debt (such as secured debt). Given the relatively weaker position of subordinated debt in an issuer's capital structure, this may lead us to assign a rating at or below the ICR, depending on the credit characteristics of the issuer and the terms of the issue.

Tranching (common in securitized structures)

It is common in securitization structures to issue multiple classes of differently rated (or unrated) debt, backed by a portfolio of securitized assets. Typically, different tranches have different ranking and payment priority, and typically have differing levels of credit enhancement reflected in their different rating levels.

The subordination of one class to another, for instance where the class gets paid after a higher ranking class is paid, may lead to a rating on a subordinated class that is at or below the rating level deemed appropriate for a more senior class.

Hybrid and other more “equity like” instruments

Some issuers may issue debt in the form of a hybrid security. These instruments can have features that are both debt and equity-like in nature. When we consider these types of instruments we are typically considering two aspects:

- The relative ranking of the instrument and its likelihood of repayment according to expected terms, including, among other things, any conversion considerations; and

- The impact of the hybrid (or other types of instruments) on the credit quality of more senior securities, in terms of providing additional protection.

OTHER CONSIDERATIONS

This methodology is not intended to be an exhaustive list of all factors we may consider in our analysis. Where appropriate, we may apply additional and/or different, quantitative and/or qualitative, considerations in our analysis to reflect the circumstances of the analysis for a particular issuer, issue or security type. A rating committee may adjust the application of the methodology to reflect individual circumstances in our analysis.