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Comments Requested On Proposed Changes To Hybrid Capital Criteria

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PARIS (S&P Global Ratings) Nov. 26, 2018--In an article published today, S&P Global Ratings said that it aims to consolidate multiple criteria articles regarding its approach to assessing hybrid capital instruments into one document. At the same time, we are proposing some changes to these criteria and are requesting comments on the proposed changes(see "Request for Comment: Hybrid Capital: Methodology And Assumptions").

We are also publishing an FAQ to discuss our analytical choices in more detail, give more background on our rationale for some of the proposed changes, and explain how comments on these proposals affect the final criteria (see "What's Behind S&P Global Ratings' Proposed Changes To Its Hybrid Capital Criteria?").

The proposed criteria would make our framework for assessing equity content for and assigning a rating to a hybrid capital instrument simpler, more usable, and more transparent, as well as clarifying how we consider the hybrid when assessing the capitalization and thus the creditworthiness of the issuer.

The criteria would explain how we:
- Define a hybrid that falls under these criteria;
- Categorize a hybrid capital instrument by whether it has high, intermediate, or no equity content. The equity content determines how we consider it when assessing the capitalization or cash flow/leverage of the issuer; and
- Rate a hybrid capital instrument (and conventional nondeferrable subordinated debt [NDSD] issued by banks).

Hybrid capital generally refers to an instrument that has characteristics of both debt and equity, and therefore excludes common equity. We consider an instrument to be a hybrid capital instrument if, and only if, without causing a legal default or liquidation of the issuer, it can absorb losses or conserve cash via:
- Deferral of the coupon;
- Write-down of principal; or
- Conversion into common equity or another hybrid capital instrument.

This applies to all hybrid instruments issued by corporate, financial institution, and insurance entities. It also applies to conventional NDSD issued by banks. Project finance issuances are excluded from the scope of this criteria, except that our criteria for assigning 'C' and 'D' ratings also apply to project finance issues.

IMPACT ON OUTSTANDING RATINGS

The impact of the proposed criteria on equity content classifications, issue credit ratings, and issuer credit ratings differs by sector.
- We could potentially reclassify the equity content of approximately 2% of hybrids issued by corporate entities, and 6% of hybrids issued by insurance entities.
- In the insurance sector, we expect the reclassification of equity content to primarily affect those hybrids issued before 2008 that would no longer meet our requirements for residual maturity. As a result, we would reclassify these instruments as having no equity content.
- In the corporate sector, we expect equity content reclassification to primarily result from a proposed clarification of how we apply our 15% capitalization guideline, which could lead us to consider some hybrids, currently classified as having minimal equity content, as having intermediate equity content.
- In addition, the changes we propose for how we assess the equity content of hybrids owned predominantly by one or two investors could lead us to reclassify a few corporate hybrids as having no equity content.
- In the financial institutions sector, we do not expect the criteria

proposal to have any impact on equity content classifications.

With respect to the potential ratings impact, the criteria proposal could lead to issue credit rating actions on approximately 10%-20% of insurance hybrids and less than 1% of corporate hybrids.

In the insurance sector, we expect a one-notch downgrade for most of the affected issue credit ratings (primarily in the Europe, Middle East and Africa [EMEA] region, with a lesser impact in North America and minimal impacts in Asia-Pacific and Latin America). This primarily relates to our proposed clarification that we apply wider notching if we consider that payment risk is not reflected in either the starting point or the minimum notching. In the corporate sector, we anticipate that affected issue credit ratings will see a one-notch upgrade due to proposed clarifications to how we notch Mandatory Convertible Securities.

We expect approximately 1% or less changes to insurance issuer credit ratings (primarily in North America, with minimal effects in EMEA, Asia-Pacific, and Latin America), and few to no changes to corporate issuer credit ratings. In the financial institutions sector, we do not expect the criteria proposal to have any issue or issuer credit ratings impact.

QUESTIONS

S&P Global Ratings is seeking responses to the following question, in addition to any other general comments on the proposed criteria:

- What are your views on the criteria we have proposed in this article?
- Are there any other factors you believe should be considered in the proposed criteria?
- In your opinion, do the proposed criteria contain any significant redundancies or omissions? Is the structure clear, and if not, why?

RESPONSE DEADLINE

We encourage interested market participants to submit their written comments on the proposed criteria by Jan. 18, 2019, 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 been 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.

S&P Global Ratings will host two complimentary webcasts to discuss the Request for Comment on the following dates:

EMEA, U.S., and Latin America: Wednesday, Nov. 28, 2018

2:30 p.m. Greenwich Mean Time, 3:30 p.m. Central European Time, and 9:30 a.m. Eastern Standard Time

Registration Link:

https://event.on24.com/wcc/r/1888949/8CCD9C5095F3294B32443130A899B815

Asia-Pacific: Monday, Dec. 3, 2018

2:00 p.m. Hong Kong/Singapore Time, 3:00 p.m. Korea/Japan, 5:00 p.m. Melbourne/Sydney

Registration Link:

https://event.on24.com/wcc/r/1889000/EA360CB287596C422A9A246317D999AC

S&P Global Ratings delivers its live webcasts via an online console. You will need computer speakers or headphones to listen to the audio stream. You can submit questions for the presenters either in advance via the registration form, or during the live webcast via the Q&A box within the webcast console. We recognize the scheduled time for the live webcast may not be convenient in every time zone, so you may listen to the replay of this webcast at your convenience (the replay will be available for 90 days). Please register and an email containing replay information will be sent to you after the webcast concludes.

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