S&P Global
Ratings

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General Criteria | Request for Comment:

Request For Comment: Group Rating Methodology

December 12, 2018

OVERVIEW AND SCOPE

1. This article describes S&P Global Ratings' proposed methodology for rating entities that are part of corporate, financial institutions, insurance, and international public finance groups, as well as U.S. public finance obligated groups.

2. These criteria articulate the steps in determining an issuer credit rating (ICR) on group members and their holding companies. This involves assessing the group credit profile (GCP; i.e. the group's overall creditworthiness), the stand-alone credit profiles (SACP) of group members, and the status of an entity relative to other group entities.

3. The criteria also describe how we assess the potential for support (or negative intervention) from group entities, or from other external sources such as a government.

4. These criteria apply to corporate, financial institution, insurance, and international public finance entities that we consider part of a group and U.S. public finance entities that we consider part of an obligated group. For these entities, we believe that their ownership, control, influence, or support by or to another entity could have a material bearing on its credit quality. Examples of entities that are outside the scope of these criteria include project finance and corporate securitizations.

5. These criteria may complement other criteria that address sector-specific support considerations.

Key Publication Dates

- Original publication date: Dec. 12, 2018
- Response Deadline: Jan. 31, 2019
- Effective date: Immediately upon publication of final criteria
- Impact on outstanding ratings: See the "Impact On Outstanding Ratings" section
- These criteria address the fundamentals set out in Principles Of Credit Ratings, published Feb. 16, 2011.

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IMPACT ON OUTSTANDING RATINGS

6. The potential ratings impact of the criteria proposal on issuer credit ratings differs by sector.

7. The criteria proposal could lead to modest credit rating actions on about 5% of ratings in the insurance sector, with more upgrades than downgrades. The potential rating changes are mostly due to proposed changes to our reference point for rating issuers above the sovereign rating, as well as the proposed removal of explicit sovereign caps for ratings based on guarantees. Some of the potential upgrades in the insurance sector may be multi-notch upgrades where financial strength ratings are based on insurance policy guarantees. Other, mostly single-notch rating actions (up and down), may result from our proposal to provide greater scope for analytical adjustments in the criteria.

8. The criteria proposal could lead to modest issuer credit rating actions in the corporate and infrastructure sector, where we anticipate rating actions for less than 5% of the rated universe. The clear majority of anticipated rating actions will be limited to an upgrade of one notch primarily in the regulated utilities sector, where we have proposed a change to how we assess insulation that is sufficient for a potential ICR that is one notch higher than the GCP.

9. The criteria proposal could lead to extremely modest (under 1%) rating actions in the financial institutions sector. Where rating actions will occur, we anticipate that they will be mostly limited to upgrades and downgrades of up to one notch as a result of our proposal to provide greater scope for analytical adjustments in the criteria.

10. We do not expect the criteria proposal to affect the ratings on U.S. public finance and international public finance entities.

QUESTIONS

11. S&P Global Ratings is seeking responses to the following questions, in addition to any other general or specific comments on the proposed criteria:

- What are your general views on the criteria we have proposed in this article?
- Are there any other factors you believe are important for the determination of issuer credit ratings on group members and their holding companies that are not sufficiently considered in the proposed criteria?
- In your opinion, do the proposed criteria contain any significant redundancies or omissions?
- In your opinion, are the criteria content and criteria structure clear? If not, why?

RESPONSE DEADLINE

12. We encourage interested market participants to submit their written comments on the proposed criteria by Jan. 31, 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 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

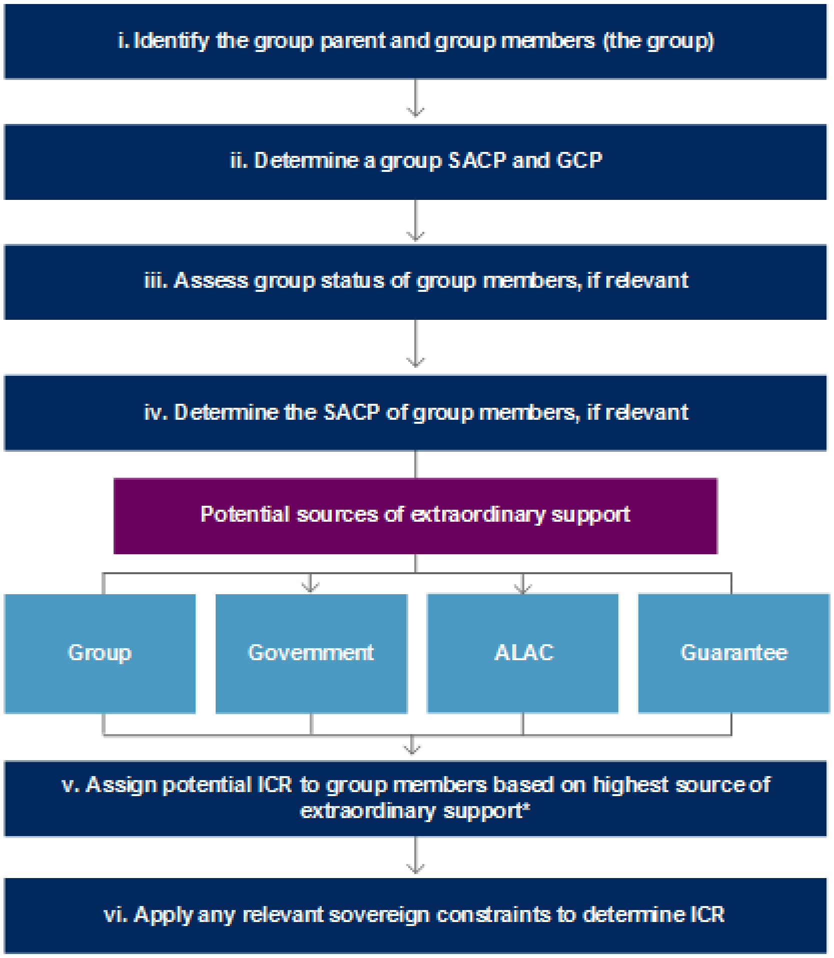
13. These criteria explain how we factor the potential for extraordinary support (or extraordinary negative intervention) into the ICR of an entity that is a member of a group. Such extraordinary support (or negative intervention) is beyond that which we already factor into the entity's SACP, as explained in "Stand-Alone Credit Profiles: One Component Of A Rating," published Oct. 1, 2010.

14. We factor the potential for extraordinary support or extraordinary negative intervention into the ICR even when the need for such support or the possibility for such negative intervention may appear remote.

15. We apply a six-step process for determining the ICR of group members (see chart 1), as follows:

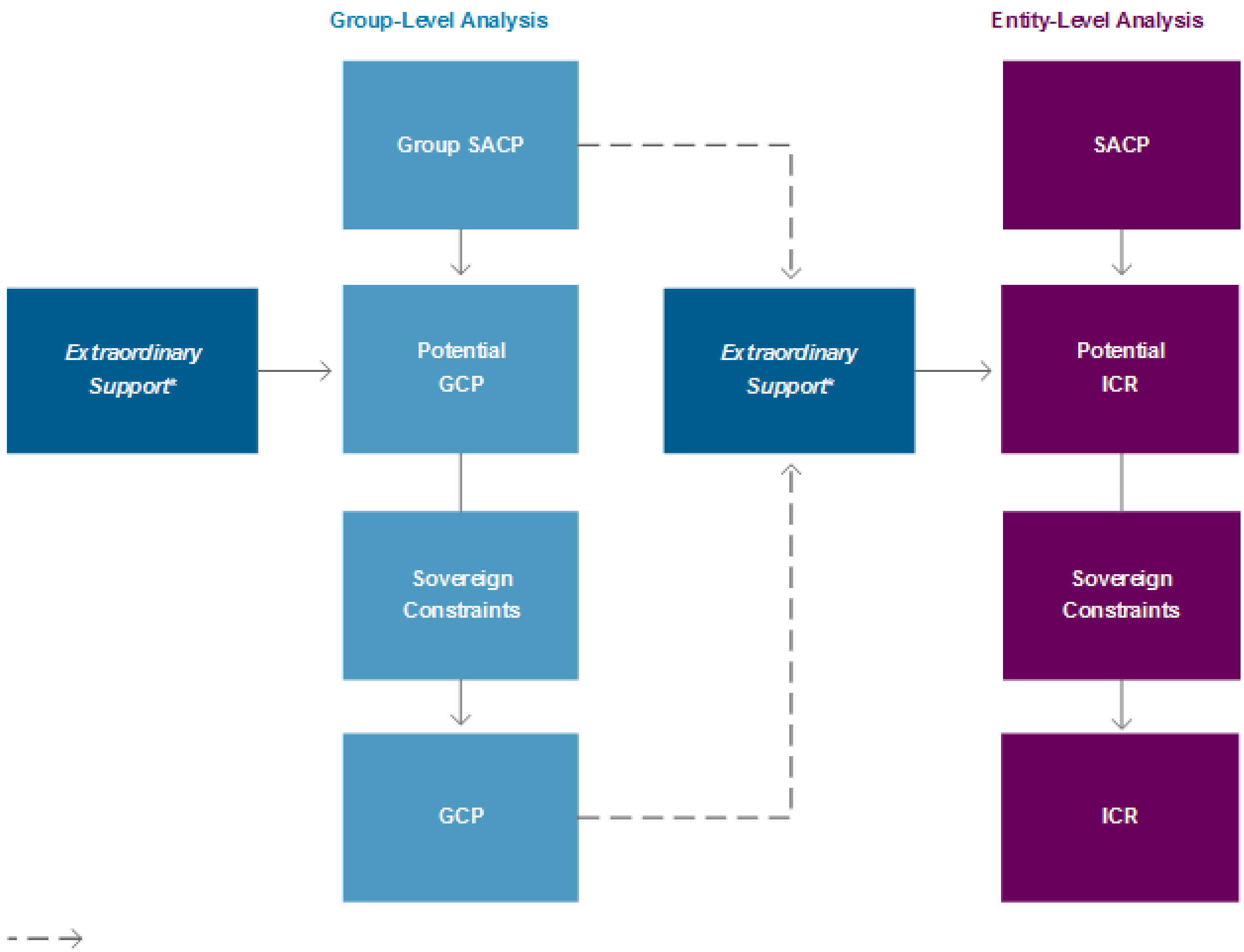
- i. Identify the group parent and the group members (together called the group).
- ii. Assess the creditworthiness of the group (or subgroup) to determine a group SACP and GCP. The potential GCP is based on the group SACP, adjusted for potential external sources of extraordinary support if we believe such support will be extended to the group, or potential extraordinary negative intervention. Finally, we apply any relevant sovereign constraints to determine the GCP (see chart 2). See "Ratings Above The Sovereign—Corporate And Government Ratings: Methodology And Assumptions," Nov. 19, 2013.
- iii. Assess the group status of each group member to be rated, if relevant.
- iv. Determine the SACPs of group members to be rated, if relevant.
- v. Assign a potential (indicative) ICR to group members. The potential ICR is based on the entity's SACP, if relevant, and the potential for extraordinary support (or extraordinary negative intervention). Extraordinary support is the higher of any group or government influence, or other external support factors (such as additional loss-absorbing capacity (ALAC) support or a guarantee). This step also factors in the degree of insulation, if any, that a group member has from potential negative influence by other weaker group entities.
- vi. Assign the final ICR after taking into consideration any relevant sovereign constraints (See "Ratings Above The Sovereign—Corporate And Government Ratings: Methodology And Assumptions").

Chart 1
Determining The Issuer Credit Rating On Group Members



*Subject to any insulation. GCP--Group credit profile. Group SACP--Group standalone credit profile. SACP--Standalone credit profile. ALAC--Additional loss absorbing capacity (applies to certain prudentially regulated entities or groups). ICR—Issuer credit rating.
Source: S&P Global Ratings.

Chart 2--Group Rating Methodology Framework



The relevant reference for determining the impact of group support is either the group SACP or GCP. GCP--Group credit profile. Group SACP--Group standalone credit profile. SACP--Standalone credit profile. ICR--Issuer credit rating. *Or negative intervention.

16. These criteria define five categories of group status: "core," "highly strategic," "strategically important," "moderately strategic," and "nonstrategic." These categories indicate our view of the likelihood that a group member will receive extraordinary support from the group (see table 1).

Table 1

Summary Of Associating An Entity's Group Status With A Potential ICR

Group status	Brief definition	Potential ICR*
Core	Integral to the group's current identity and future strategy. The rest of the group is likely to support these entities under any foreseeable circumstances.	GCP
Highly strategic	Almost integral to the group's current identity and future strategy. The rest of the group is likely to support these group members under almost all foreseeable circumstances.	One notch lower than the GCP, unless the SACP on that entity is equal to, or higher than, the GCP. In such a case, the potential ICR is equal to the GCP.

Table 1

Summary Of Associating An Entity's Group Status With A Potential ICR (cont.)

Group status	Brief definition	Potential ICR*
Strategically important	Less integral to the group than “highly strategic” group members. The rest of the group is likely to provide support in most foreseeable circumstances. However, some factors raise doubts about the extent of group support.	Three notches above SACP. This is subject to a cap of one notch below the GCP, unless the SACP is at least equal to the GCP, in which case the potential ICR is equal to the GCP.
Moderately strategic	Not important enough to warrant support from the rest of the group in some foreseeable circumstances. Nevertheless, there is potential for some support from the group.	One notch above SACP. This is subject to a cap of one notch below the GCP, unless the SACP is at least equal to the GCP, in which case, the potential ICR is equal to the GCP.
Nonstrategic	No strategic importance to the group.	SACP, subject to a cap defined by the GCP.

*The above conventions do not apply where: potential ICRs exceed the GCP due to insulation (see “Insulated Entities” section); the group SACP is used to determine uplift for group support (see “External support factors in the GCP” section); the GCP is ‘ccc+‘ or lower (see paragraph 19); and when paragraph 48 applies.

17. A potential ICR on a group member that exceeds its SACP reflects our view of the likelihood of that entity, in a credit-stress scenario, receiving timely and sufficient group or government support (beyond that already factored into the SACP), thereby strengthening its creditworthiness. Support can include, for instance, additional liquidity, capital, or risk transfer to the group member.

18. A potential ICR on a group member that is lower than its SACP reflects our view that if the group or relevant government were in a credit-stress scenario, the group or government would draw resources from the group member (an example of extraordinary negative intervention), thereby weakening its creditworthiness.

19. If the GCP is 'ccc+' or lower, the potential ICR on a group member cannot be lower than 'b-' unless the conditions for a potential ICR of 'ccc+' or lower are met (see Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012). The potential ICR would include the potential for extraordinary negative intervention from the group or government.

Identifying The Group And Its Members

20. For the purposes of these criteria, the term "group" refers to the group parent and all the entities (also referred to as group members) over which the group parent has direct or indirect control.

21. The group parent is not necessarily the ultimate holding company in the group structure but is the top entity in the structure that we believe is relevant to the group's credit quality. Accordingly, additional holding companies may exist above the group parent, but be excluded from our group assessment if we believe they have no material liabilities or operating assets and therefore no bearing on the group's overall credit quality. The control chain may include several successive layers of controlling or joint-control interest in other entities. We would generally not consider a natural person, or entities such as family firms, foundations, managed fund, or financial sponsors, to be a group parent. Where we determine that an entity (for instance, an investment holding company) does not have control of an investee company, we do not consider that entity to be the group parent.

22. "Control" refers to the ability to direct a group member's strategy and the disposition of its cash flow. Control may be present even if the group owns 50% or less of the group member's shareholder capital.

23. We generally apply this methodology to an entire group, but may also apply it to a distinct subgroup. A subgroup focus may be appropriate when the subgroup and its components have a distinct credit profile that is separate from that of the broader group. This could be due to factors such as jurisdictional location, regulatory oversight, or support factors that apply only to the subgroup. References to the term "group" in this methodology can apply to either a subgroup or a group viewed in its entirety.

The Group SACP And Group Credit Profile (GCP)

24. The group SACP and GCP are our opinions of a group's creditworthiness as if it were a single legal entity (subject to any potential restrictions on cash flows associated with insulated entities).

25. The group SACP and GCP are not ratings. They are components contributing to the determination of the ICRs on group members. The group SACP does not take into account sources of potential extraordinary support or negative intervention that we consider external to the assessed group. However, the potential GCP incorporates extraordinary external support that we believe is available to the group, or conversely, extraordinary negative intervention. Finally, the GCP takes into consideration any relevant sovereign constraints. See "Ratings Above The Sovereign—Corporate And Government Ratings: Methodology And Assumptions."

26. Group SACPs and GCPs range from 'aaa' (the highest assessment) to 'd' (the lowest assessment), on a scale that parallels the ICR ('AAA' to 'D'). The lowercase letters indicate their status as a component of a rating rather than as a rating. Like ICRs, group SACPs and GCPs can carry the modifier "+" or "-". Typically, a group SACP or GCP is 'd' only in the case of a generalized group default. In the case of a legal entity within a group, we lower the ICR on that entity to 'D' or 'SD' (selective default) only if we determine the entity is in default (see "S&P Global Ratings Definitions").

27. To determine the group SACP or GCP, we assess the consolidated group using the relevant sector methodologies. The assessed group includes all group entities that we believe have a bearing on the group's credit quality. We typically conduct the assessment of the group SACP or GCP as though the group were a single legal entity.

28. For conglomerates (including their holding companies), the specific rating methodology applied to assess the group SACP is the one relevant for the operations that most strongly influence the group's credit profile. This influence can reflect the amount of capital employed, level of earnings, cash flow, dividend contribution, or other relevant metric. However, for some more diversified mixed groups, the analysis of consolidated financial statements using a single sector's criteria framework may not produce a meaningful picture of credit quality. In such cases, we may apply a combination of rating methodologies to assess the group SACP. This may be done by applying the relevant methodologies to determine SACPs for the different group members. We would then aggregate these SACPs to derive the overall group SACP. The group SACP would also include adjustments to account for any benefits or risks not captured in the aggregation of the component SACPs.

a) Multiple ownership and joint ventures

29. If a group member is under the joint control of at least two parents--for example, a joint venture (JV)--the insolvency or financial difficulty of one parent may have less impact than if the entity had a single parent.

30. For JVs, we may attribute support from one of its owners (sponsors) even if the sponsor does not have majority ownership in the JV. We typically attribute support from the sponsor that would

result in the highest potential ICR on the JV. This would apply where we believe the sponsor would support the JV, regardless of the actions of the other owners. This could include situations where that sponsor makes day-to-day business decisions, or the JV is of critical importance to the supporting sponsor's operations or strategy. In such cases, however, the group status of the JV to the sponsor would typically not exceed "strategically important." In addition, we would also take the potential resource demands of the JV on the sponsor into consideration when determining the sponsor's credit profile.

31. The analytical approach for a group's jointly owned business operations, such as whether to fully consolidate, partially consolidate, or equity account the operations when assessing the group SACP, is determined by the relevant methodologies for assessing corporates, financial institutions, insurance companies, or other entity types.

32. In cases where a shareholder agreement or similar arrangement exists that we believe would prevent an otherwise controlling parent from directing the strategy and cash flows of a group member, we may assess that control is not present. When we determine control is not present, we would typically treat the member as an equity affiliate and consider only the projected dividend flows from that member in our group SACP assessment.

b) Insulated entities

33. Where we determine that consolidating an insulated group member does not adequately capture the impact on the group SACP of any material restrictions on cash flows or financial resources within the group, we either:

- Adjust the group SACP down (typically by one or two notches); or
- Treat an insulated group member as an equity affiliate, and reflect this deconsolidated approach in determining the group SACP.

34. When assessing a group that has a bank subsidiary with a potential ICR that is above the GCP because it is of high systemic or moderate systemic importance (as per "Banks: Rating Methodology And Assumptions,"Nov. 9, 2011), in the country where it is domiciled, the group SACP will take into account the impact of any local restrictions on the flow of capital, funding, and liquidity, and any implications for the business and risk positions of the parent.

c) Entities owned by a financial sponsor

35. If the owner of a group entity is a "financial sponsor" (see Appendix A: Glossary Of Terms, below), the potential ICR on that group entity does not directly factor in the likelihood of support from the financial sponsor, nor is it directly constrained by our view of the sponsor's creditworthiness. However, the financial sponsor's ownership may still affect the potential ICR through the application of the relevant sector-specific criteria.

36. The group SACP for a group owned by a financial sponsor may, however, include one or more intermediate holding companies of the operating entity, but would exclude the financial sponsor's own financials and its other holdings. This approach reflects our view that an intermediate holding company's primary purpose is to acquire, control, fund, or secure financing for its operating companies, and is generally reliant on those companies' cash flow to service its financial obligations.

d) U.S. public finance obligated groups

37. U.S. public finance obligated groups typically consist of a group of entities that are cross-obligated as security for specific debt. Obligated group structures are most commonly used by not-for-profit hospitals, health systems, and senior living organizations.

38. Obligated groups are created for purposes of securing debt, and do not have operating or governance independence from the larger group. While debt covenants may contain some restrictions, for example limitations on the transfer of assets out of the obligated group, covenants are generally not strong enough to insulate the obligated group from the strategic and operating influence of the group. An obligated group, therefore, is typically not rated higher than the GCP. Exceptions could include insulated entities, as described in our "Senior Living" criteria, published June 18 2007.

39. Individual obligated group members may have separate legal incorporation and varying strategic value to the group. However, since the purpose of the obligated group is to secure debt on a joint and several basis, group status will be determined for the obligated group as a whole, not for its individual members. In applying these criteria, we consider obligated groups a single entity.

40. Most U.S. public finance ratings are issue ratings, although we sometimes assign ICRs. The issue rating could differ from the ICR based on the specific security package for the rated bonds. We expect that, barring subordination or structural enhancement, U.S. public finance issue ratings will generally be the same as the ICR.

e) External support factors in the GCP

41. **Government support.** The potential for extraordinary government support can be factored into either the ICRs of certain group members or the GCP, depending on the nature of this support (see GRE criteria, published March 25, 2015, and Banks: Rating Methodology And Assumptions, published Nov. 9, 2011). We use the group SACP as a basis from which to determine the GCP when using the government support tables in the GRE criteria or bank criteria.

42. The assessment considers whether government support, driven by GRE status or systemic importance, would likely accrue to all or only some members of the group (see table 2).

43. To determine the potential ICR for a particular group member, where the assessment indicates that the government:

- Is likely to extend such extraordinary support directly to that entity (bypassing the group), any uplift for such support is added to the SACP of that entity in determining the potential ICR;
- Is likely to extend such extraordinary support indirectly, via the group, to the entity, the reference point for determining any uplift for group support (or negative group intervention) is the GCP (which would include uplift, if any, for extraordinary government support); or
- Is unlikely to extend such extraordinary support to the entity, the reference point for determining any uplift for group support is the lower of the group SACP or the GCP.

Table 2

Rating Government-Supported Entities--Likelihood Of Government Support Versus Group Support

SACP level	If the subsidiary is likely to benefit directly from extraordinary government support*	If the subsidiary is likely to benefit from extraordinary government support indirectly through the group	If the subsidiary is unlikely to benefit from extraordinary government support either directly or indirectly
SACP is lower than the group SACP	Potential ICR = Higher of i) the SACP plus uplift for government support, or ii) SACP plus uplift for group support, subject to a cap at the level of the GCP (unless the subsidiary is insulated)	Potential ICR = SACP plus uplift for group support (with reference to the GCP)	Potential ICR = SACP plus uplift for group support (with reference to the lower of the group SACP or the GCP)
SACP is higher than or equal to the group SACP	Potential ICR = SACP plus uplift for government support, subject to a cap at the level of the GCP (unless the subsidiary is insulated)	If SACP < GCP, potential ICR = SACP plus uplift for group support (with reference to the GCP); If SACP > or = GCP, potential ICR = SACP, subject to a cap at the level of the GCP (unless the subsidiary is insulated)	Potential ICR = SACP, subject to a cap at the level of the GCP (unless the subsidiary is insulated)
No SACP	SACP required, unless subsidiary is a GRE with almost certain likelihood of government support	If core, potential ICR = GCP; if highly strategic, potential ICR = GCP -1	If core, potential ICR = lower of the GCP or group SACP; If highly strategic, potential ICR = lower of the GCP -1 or group SACP -1

*See GRE criteria for further details, including when an SACP is not required for entities with almost certain likelihood of government support. SACP--Stand-alone credit profile. ICR--Issuer credit rating.

44. **ALAC support.** The potential for extraordinary external ALAC support can be factored into either the ICRs on certain group members or the GCP, depending on the nature of this support (see "Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity," published April 27, 2015). To determine the potential ICR on a particular group member, where the assessment indicates that ALAC support in the GCP:

- Is likely to extend indirectly, via the group, to the entity, the reference point for determining any uplift for group support (or negative group intervention) is the GCP; or
- Is unlikely to extend to the entity, the reference point for determining any uplift for group support is the lower of the group SACP or the GCP.

Assigning The Issuer Credit Rating

45. A potential ICR on a group member reflects its SACP (if relevant) and the potential for external extraordinary support (or negative intervention). We then determine the final ICR by applying any relevant sovereign constraints to the potential ICR.

46. We determine the potential ICR as follows, unless paragraph 48 applies:

- Core group entity is equal to the GCP;
- Highly strategic entity is one notch lower than the GCP, unless the SACP on that entity is equal to, or higher than, the GCP. In such a case, the potential ICR is equal to the GCP;
- Strategically important entity is rated three notches higher than its SACP. This is subject to a

cap of one notch below the GCP, unless the SACP is at least equal to the GCP, in which case the potential ICR is equal to the GCP;

- Moderately strategic entity is rated one notch higher than that entity's SACP. This is subject to a cap of one notch below the GCP, unless the SACP is at least equal to the GCP, in which case, the potential ICR is equal to the GCP; or
- Nonstrategic entity is rated the same as that entity's SACP, subject to a cap defined by the GCP.

47. The above conventions do not apply where: the potential ICR exceeds the GCP due to insulation; the group SACP is used to determine uplift for group support; the GCP is 'ccc+' or lower; or when paragraph 48 applies.

48. We may apply a one-notch adjustment to determine the potential ICR (as described in paragraph 46) to better reflect our holistic view of potential extraordinary group support. This adjustment is only applicable if we have determined an SACP and the gap between the potential ICRs, based on group status assessments of "highly strategic" and "strategically important," is at least three notches. The adjustment, if applicable, is as follows:

- When the group status is "highly strategic," we may apply a negative one-notch adjustment. The potential ICR could, therefore, be two notches lower than the GCP rather than one notch; or
- When the group status is "strategically important," we may apply a positive one-notch adjustment. The potential ICR could, therefore, be four notches higher than its SACP rather than three notches.
- For example, if we determine an entity exhibits characteristics consistent with a "highly strategic" entity, while a change in group status to "strategically important" could lead to a potential ICR change of three notches, the potential ICR could be two notches below GCP while the group status remains "highly strategic"; alternatively, if we determine the entity now exhibits characteristics consistent with a "strategically important" entity, we will revise the group status to "strategically important" and the potential ICR could be four notches above the SACP.

Group Status Of Individual Members

49. A group member's group status reflects the extent and timeliness of extraordinary credit support we expect it will receive from the rest of the group when that entity is under credit stress. We may also assess a group member's group status to a subgroup and the group status of a subgroup to a broader group. This section describes the framework that supports the classification of a member's group status into one of five categories:

- Core;
- Highly strategic;
- Strategically important;
- Moderately strategic; or
- Nonstrategic.

50. The determination of an SACP for a group member categorized as core or highly strategic is not necessary unless otherwise required (e.g., the application of Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions) or analytically relevant (such

as mixed groups). A group status is not necessary for insulated entities, unless otherwise required or analytically relevant.

a) Core entities

51. A core entity exhibits features highly consistent with the group's franchise, supports the realization of group strategic objectives, and is expected to attract extraordinary support, if required, under any foreseeable circumstance. A core entity would also generally be expected to exhibit the following characteristics:

- Is highly unlikely to be sold;
- Operates in lines of business or functions (which may include group risk management and financing) that are very closely aligned with the group's mainstream business and customer base. The entity also often operates in the same target markets;
- Has a strong, long-term commitment of support from the group in benign and under stressful conditions, or incentives exist to induce such support (e.g., cross-default clauses in financing documents, or the entity plays an integral role in group risk management or financing);
- Is reasonably successful at what it does or does not have ongoing performance problems that could result in underperformance against the group's specific targets and group earnings norms over the medium to long term;
- Either constitutes a significant proportion of the consolidated group or is fully integrated with the group;
- Is closely linked to the group's reputation, name, brand, or risk management;
- Has typically been operating for about five years or more; and
- Has been established as a separate entity for legal, regulatory or tax reasons and operates more as a profit center or division of the group.

b) Highly strategic entities

52. A highly strategic group entity exhibits many of the characteristics of a core entity, and differs only narrowly regarding the extent of expected extraordinary support from the group. An entity assessed as highly strategic is generally expected to have a long-term commitment from the group. There may be situations in which support for the highly strategic entity will be limited, for instance, to preserve the viability of core entities of the group.

c) Strategically important entities

53. We assess an entity as strategically important when we expect it to receive extraordinary support from the group in most foreseeable circumstances; however, there are some doubts about the extent of group support that precludes it from a higher support category. Strategically important subsidiaries would however typically exhibit the following characteristics:

- Is unlikely to be sold;
- Is important to the group's long-term strategy;
- Has the long-term commitment of the group , or incentives exist to induce such commitment (e.g., cross-default clauses in financing documents); and

- Is reasonably successful at what it does or has realistic medium-term prospects of success relative to the group's specific expectations or group earnings norms.

d) Moderately strategic entities

54. When an entity does not exhibit the characteristics for a higher level of group support, but we expect it to receive extraordinary support in some foreseeable circumstances, it is typically considered moderately strategic. Moderately strategic entities are also typically important to the group's long-term strategy or are (or are expected to become) reasonably successful at what they do.

e) Nonstrategic entities

55. When an entity does not exhibit the characteristics of core, highly strategic, strategically important, or moderately strategic, it is categorized as nonstrategic.

Captive (re)insurer

56. A captive (re)insurer may also be assessed as core if it sources its (re)insurance business from companies within the group and writes no, or an immaterial amount, of third-party business. A captive (re)insurer may also be assessed as highly strategic if third-party business is a modest portion of its overall business operations.

Captive finance

57. When assessing group status for captive finance subsidiaries, the attributes we examine to determine group status should be considered within the context of the following unique factors that captive finance subsidiaries typically provide to their group's marketing efforts:

- The percentage of the group's products sold via the subsidiary (penetration rate). For diversified groups, the percentage of total sales may be less important than the percentage of certain specific product lines. In turn, we consider the importance of these products to the overall performance of the group;
- The alternatives available to sell the group's products; and
- The costs and challenges in conducting its own financing. For some entities, funding costs may outweigh the benefits--or it may become difficult to gain access to capital.

Branches

58. For financial services entities, a branch is part of a legal entity that is typically at another geographic location. A branch therefore has the same creditworthiness as the legal entity, unless the branch is in another country and the actions of that sovereign could affect the branch's ability to service its obligations. See "Ratings Above The Sovereign -Corporate And Government Ratings," published Nov. 19, 2013. With respect to financial institutions, see also "Assessing Bank Branch Creditworthiness," published Oct. 14, 2013.

U.S. public finance obligated groups

59. U.S. public finance obligated groups could be considered core if they contain the majority of the organization's primary operating facilities, such as its hospitals or senior living facilities.

Financing subsidiaries

60. A financing subsidiary of a financial institution or corporate group may be assessed as core when it plays an integral role in group financing, its sole activity is to raise debt on behalf of the group, and it is wholly owned. Such subsidiaries often share a related corporate name with their parents.

61. A financing subsidiary of an insurance group, while generally not assessed as core, is typically assigned a rating as if it is a holding company.

Credit-substitution guarantee of group entities

62. When all of a group member's present and future financial obligations are guaranteed, and the guarantor is obliged to pay that group member's obligations even if the group member defaults, we assign a rating to the group member that reflects the higher of two outcomes:

- A rating reflecting the creditworthiness of the group member absent the benefit of the guarantee; or
- A rating reflecting the creditworthiness of the guarantor (see "Guarantee Criteria," published Oct. 21, 2016).

63. Our assessment of the terms of any intragroup guarantees determines whether a payment default on the part of a group entity is viewed as a default by the guarantor (see "General Criteria: Guarantee Default: Assessing The Impact On The Guarantor's Issuer Credit Rating," May 11, 2012).

Loan participation notes (LPNs)

64. We rate LPNs and equivalent securities (such as trust preferred) issued by a special-purpose vehicle (SPV) on behalf of a corporate, financial institution, or insurance entity (including their holding companies) at the same level as we would rate an equivalent-ranking debt of its underlying borrower (the sponsor) (and treat the contractual obligations of the SPV as financial obligations of the sponsor) provided that all the following conditions are met:

- All of the SPV's debt obligations are backed by equivalent-ranking obligations with equivalent payment terms issued by the sponsor;
- The SPV is a strategic financing entity for the sponsor set up solely to raise debt on behalf of the sponsor's group; and
- We believe the sponsor is willing and able to support the SPV to ensure full and timely payment of interest and principal when due on the debt issued by the SPV, including payment of any expenses of the SPV.

65. As a consequence, we assign a 'D' or 'SD' ICR to the sponsor if the SPV fails to make payments on the debt when due, as we would typically do in case of default on a similarly ranking debt issuance of the sponsor (see also "Methodology: Timeliness Of Payments: Grace Periods, Guarantees, And Use Of ‘D’ And ‘SD’ Ratings," Oct 24, 2013).

66. For multiple sponsor SPVs, or SPVs that do not meet all the conditions above, the relevant structured finance criteria apply, which may include "Asset Isolation And Special-Purpose Entity Criteria—Structured Finance," May 7, 2013 and "Global Methodology For Rating Repackaged Securities," Oct. 16, 2012.

Investment holding companies (IHC)

67. Where we determine that an IHC (as defined in "Methodology: Investment Holding Companies") is a group parent, the group status of its investee companies cannot be any higher than "moderately strategic" given the nature of the strategic and financing relationship between IHCs and their investee companies.

Dedicated supplier/purchaser relationships

68. Group members are typically owned or controlled by the group parent. However, a dedicated supplier/purchaser relationship with an affiliated entity can create an economic incentive for one entity to support the other, despite having only a minority ownership interest or none at all. A supplier may provide support sufficient for the purchaser to be considered moderately strategic to the supplier when the purchaser comprises a meaningful portion of the supplier's sales, cash flow, volume, or other measure. Such relationships typically have the following characteristics:

- The term of the supplier/purchaser agreement is either perpetual or long term;
- There is evidence of the supplier's willingness and ability to provide financial support to the purchaser. We determine this by looking at prior loans, capital investments, or marketing support given to the purchaser; and
- The purchaser is closely linked to the supplier's reputation, name, or brand.

Entities with interlocking business relations

69. We can apply this methodology to groups of entities with interlocking business relations even in the absence of control, as defined in the criteria. Group membership will be based on meeting at least four of the following conditions:

- Name affiliation;
- Common management;
- Common board composition or common board control;
- Shared corporate history;
- Common business ties;
- Common financing of group entities;
- Shared corporate support functions; or
- Cross ownership holdings.

In such cases, we determine the GCP by considering the group members' SACPs. Members of this type of group can only be assigned a group status of strategically important, moderately strategic, or nonstrategic.

Insulated Entities

70. Financial stress within the group can negatively affect the creditworthiness of group entities. Accordingly, in such cases a potential ICR on an entity is typically limited by the GCP. This is notably because:

- The group could potentially transfer assets from one group entity to another during financial stress, contributing to credit stress at other group entities;
- The distress at the group could trigger business or financial difficulties at the group member. For instance, the group's problems could cause reputational damage of the group member and a loss of business;
- The group member might rely on operational support from the group on an ongoing basis; and
- In some jurisdictions, a bankruptcy petition by one group entity could include or cause other group entities to go into bankruptcy or similar measures.

71. Some entities (which for the purposes of this section, could also apply to a subgroup) may be insulated, segmented, or ring-fenced from their group, from a credit risk perspective. Such insulation may lead to the rating on the entity being higher than the GCP. The lower the likelihood that the creditworthiness of the entity would be impaired by a credit stress scenario for the group, the greater the potential difference between the potential ICR on the entity and the GCP.

72. The potential ICR of an insulated entity is one notch higher than the GCP in cases where the entity is operationally separated from the group and the entity's SACP (or the SACP plus the potential for government support and ALAC) is at least one notch higher than the GCP. Key characteristics of an operationally separated entity would generally include the following:

- The entity holds itself out as a separate entity, its financial performance and funding are highly independent from the group, it has no significant operational dependence on other group entities, and it maintains its own records and funding arrangements and does not commingle funds, assets, or cash flows with them;
- There is a strong economic basis for the group to preserve the entity's credit strength; and
- We do not expect a default of other group entities to directly lead to a default of the insulated entity.

73. The potential ICR of an insulated entity is two notches above the GCP if, in addition to being eligible for one notch of insulation, the group's control of the entity is limited by independent parties, and the entity's SACP (or the SACP plus the potential for government or ALAC support) is at least two notches above the GCP. Limited control would generally be characterized by at least one of the following:

- There are significant minority shareholders with an active economic interest;
- Independent directors have effective influence on decision making, including dividend policy and bankruptcy filings; or
- There are strong legislative, regulatory or similar restrictions that would inhibit the entity from supporting the group to an extent that would unduly impair the entity's stand-alone creditworthiness.

74. The potential ICR on an insulated entity is three notches above the GCP if, in addition to the entity being eligible for two notches of insulation, there are material structural safeguards to protect the

entity from group influence, and the entity's SACP (or the SACP plus the potential for government and ALAC support) is at least three notches above the GCP. Structural safeguards that protect the entity from group influence would generally include at least one of the following:

- The regulator or appropriate legislative body is expected to act, or has acted, to protect the credit quality of the entity, for example to prevent the entity from supporting the group to an extent that would in turn impair its standalone creditworthiness;
- There are both: protective governance arrangements (such as independent directors with an effective influence on decision making); and either significant minority shareholders or joint venture partners, with an active economic interest;
- There is an independent trustee or equivalent governance arrangement that can enforce the rights of third parties, and we expect the trustee (or equivalent) to act upon that right; or
- The government or other governmental agency:
- i. Has the authority to change ownership of the entity via existing legislation or other legal powers to separate it from a troubled group; and
- ii. We expect it to act upon that right, based, for example, on a statement of intent to do so, or a track record of proactive stress management under similar circumstances.

75. The potential ICR of an insulated entity could be de-linked and therefore not constrained by the creditworthiness of the group where:

- i. In addition to being eligible for three notches of insulation as described in the preceding paragraph:
- a) We believe that the parent company doesn't exert control due to substantial creditor protections and as a result is unable to adversely impact the entity's credit quality; and
- b) The entity benefits from governance constraints that severely limit the influence of the parent, preventing it from determining matters such as strategy, material change of business, dividend payments and other material cash flows, and bankruptcy filings. These may arise, for example, due to statutory powers or contractual constraints; or
- ii. We determine that there is sufficient evidence that significant group credit stress has had minimal impact on the entity's credit profile, and that we do not expect it to have a material negative influence going forward.

76. With respect to our assessment of insulation of captive finance subsidiaries, we could view a captive finance entity as operationally separated from the group when it is able to stand on its own by taking over or subcontracting certain functions previously provided by other group entities. Given the nature of a captive finance entity's business model, we would expect it to retain commercial ties with its group.

77. The potential ICR of a bank subsidiary is above the GCP where the entity's SACP plus the potential for government and ALAC support is above the GCP because it is of high systemic or moderate systemic importance (according to "Bank Rating Methodology and Assumptions, Nov. 9, 2011), in the country where it is domiciled.

Holding Companies

78. For holding companies of corporate groups and nonregulated nonbank financial institutions, the ICR is typically the same as the GCP. For intermediate holding companies of corporate groups and

nonregulated nonbank financial institutions, the ICR is typically the same as the rating on its core operating entities.

Holding companies of prudentially regulated financial services groups

79. Holding companies are typically reliant on dividends and other distributions from operating companies to meet their obligations. The rating of holding companies of prudentially regulated financial services groups reflects the difference in their creditworthiness relative to the group's operating entities. The rating differential is mainly due to the increased credit risk that arises from possible regulatory constraints to upstream resources and potentially different treatment under a default scenario.

80. For holding companies of prudentially regulated financial institution groups, the ICR is generally:

- One notch lower than the GCP if the GCP is 'bbb-' or higher; or
- At least two notches lower than the GCP if the GCP is 'bb+' or lower.

81. For holding companies of insurance groups, the ICR is generally:

- Two notches lower than the GCP if potential regulatory restrictions to payments are considered low in jurisdictions accounting for the majority of distributions (typically as measured by dividends, cash flows, or earnings) from operating entities to the holding company; or
- Three notches lower than the GCP if potential regulatory restrictions to payments are considered high in jurisdictions accounting for the majority of distributions (typically as measured by dividends, cash flows, or earnings) from operating entities to the holding company.

82. The notching from the GCP to derive the ICR of a holding company of a financial services group may be narrower than the standard notching in paragraphs 80 or 81, or potentially eliminated, if:

- The holding company directly controls multiple material operating units that are sufficiently diverse and independent such that the holding company could withstand significant credit stresses on any of its operating entities;
- The holding company generates sufficient cash flows from its own business activities or from unregulated operating subsidiaries to meet its obligations; or
- The potential for regulatory restrictions on distributions from operating entities is mitigated by our expectation that the holding company will regularly maintain significant unencumbered cash or high quality liquid fixed income investments to meet its obligations.

83. The notching from the GCP to derive the ICR on a holding company of a financial services group may be wider than the standard notching in paragraphs 80 or 81 if:

- The holding company itself carries significant asset or liability risks that are not fully captured in our standard notching;
- There are elevated liquidity risks at the holding company, most notably when it has significant debt maturities and other financial obligations relative to its unencumbered cash and liquid assets held or to which is has ready access. For example, high double leverage for a financial institution can reflect potential liquidity risks;
- There are heightened risks of regulatory constraints or other material restrictions to payments that are not adequately captured in the initial notching; or

- The GCP is higher than the group SACP owing to external extraordinary support that is not expected to accrue to the holding company. In this case, we apply the typical notching from the group SACP rather than the GCP.

84. If the GCP is 'b-' or lower, or if notching would otherwise result in a rating of 'CCC+' or lower, the ICR on a holding company is assigned in accordance with "Criteria For Assigning ‘CCC+’, ‘CCC’, ‘CCC-‘, And ‘CC’ Ratings," published Oct. 1, 2012.

85. We typically notch down the ICR on an intermediate holding company of a financial services group or subgroup from the rating assigned to its core operating entities by applying the same notching we would to a holding company of the group. We may, however, narrow the notching or potentially eliminate the notching if we expect the group to provide extraordinary support for the subsidiaries of the intermediate holding company by investing in the intermediate holding company. We may widen the notching if there are additional risks relating to cash flows from its operating entities or risk relating to the expected extraordinary support from the group.

Rating Group Entities Above The Sovereign

86. The general criteria for rating a group member above the relevant sovereign rating, which is usually the country of domicile of the group member, are in Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013.

87. Uplift for group support can result in the ICR on a group member being higher than the relevant sovereign rating if we believe the group is willing and able to sufficiently support the group member during the stress associated with a sovereign default and any of the following apply:

- i. The sovereign is rated 'B-' or lower;
- ii. The potential ICR is based on a guarantee that meets our credit substitution criteria, in which case the ICR is the same as the potential ICR;
- iii. For a financial institution or insurance group member, the entity has less than 10% exposure to the jurisdiction of domicile and we consider the risks (e.g. a deposit freeze or monetary-union exit) associated with that jurisdiction are immaterial, in which case the ICR is same as the potential ICR; or
- iv. One of the following situations apply:
- a) For members of financial institutions groups, an ICR on a group member is the lower of the relevant foreign currency sovereign rating for the group member (plus one notch if it is a core entity), or the potential ICR otherwise derived from these criteria; or
- b) For members of insurance or corporate groups, an ICR on a group member is the lower of the relevant foreign currency sovereign rating for the group member (plus three notches if a core entity or plus two notches if highly strategic), or the potential ICR otherwise derived from these criteria.

88. If we believe the group is unwilling or unable to sufficiently support the group member during the stress associated with a sovereign default, the ICR on the group member is the lower of the relevant foreign currency sovereign rating for the group member, or the potential ICR otherwise derived from these criteria.

89. Regardless of the group's willingness and ability to support the group member, where we have determined that the potential ICR on the group member (but excluding uplift for group support) is itself higher than the relevant foreign currency sovereign rating for the group member and the

group member passes the appropriate sovereign stress test, the ICR on the group member can exceed the relevant sovereign foreign currency rating. In this case, the ICR on the group member is the higher of:

- The potential ICR otherwise derived from these criteria (but excluding uplift for group support) and from "Ratings Above the Sovereign"; or
- The outcome resulting from the application of paragraph 87.

APPENDIXES

Appendix A: Glossary Of Terms

90. ALAC: Additional loss absorbing capacity. These are securities issued by certain prudentially regulated entities (see Related Criteria) that can absorb losses at or near non-viability--for example, in the event of a bank resolution, in a way that reduces the risk of the bank defaulting, according to our definitions, on its senior unsecured obligations.

91. Captive finance subsidiary: A captive finance subsidiary (as opposed to a financing subsidiary) provides financing for the purchase of the group's products. (For a full definition, see "The Impact of Captive Finance Operations On Nonfinancial Corporate Issuers", published Dec. 14, 2015).

92. Captive (re)insurer: A member of an insurance, corporate, or financial institutions (FI) group that mainly insures risks of other group entities. Captive (re)insurers typically show a very high degree of integration with a group's financial and risk management strategy.

93. Double leverage (for financial institutions only): We define double leverage (DL) for FI groups as holding company investment in subsidiaries divided by holding company (unconsolidated) shareholder equity. Holding companies often issue hybrid capital securities that build regulatory capital. They invest the proceeds in operating subsidiaries as equity or as similarly structured hybrid securities. We calculate DL in two ways: (1) with a common equity double-leverage measure that treats hybrid capital as debt, and (2) with a total equity double leverage measure that treats hybrid capital as equity.

94. Equity affiliate: Also defined in our corporate criteria as "unconsolidated equity affiliates." These are entities that are not consolidated in an issuer's financial statements. Therefore, the earnings and cash flows of the investees are not typically included in our primary metrics (see "Corporate Methodology").

95. Financial institution: Entities that are in-scope for our bank and nonbank FI methodologies.

96. Financial services sector: Consists of financial institutions and insurance companies.

97. Financial sponsor: We define a financial sponsor as an owner that does not have a long-term strategic interest in a company. Rather, the financial sponsor is a financial investment firm primarily motivated to increase the value of its investment by improving its management, capital, or both, typically with the ultimate goal of liquidating the investment. Financial sponsors include, but are not limited to, private-equity firms, hedge funds, and venture capital firms.

98. Holding company (may also be referred to as a group parent): A legal entity that is the owner of at least one group member that conducts business activities, though it may not carry out its own business activities (e.g. a non-operating holding company). A holding company may also provide services to subsidiaries such as investment and treasury management.

99. Insurance company (or insurers): Entities that are in scope for our insurance ratings

methodologies.

100. Intermediate holding company: A legal entity that is a group member and legal owner of at least one other group member that conducts business activities, though it may not carry out its own business activities.

101. Parent: An entity with controlling or joint-control interest in another entity or a joint venture.

102. Prudentially regulated: This refers to the regulation of a financial services entity by one or more regulatory authorities who set standards for, among other things, capital adequacy and potential restrictions on distributions. We generally regard banks and insurers as prudentially regulated sectors.

Appendix B: Proposed Guidance For Group Rating Methodology

Overview and scope

103. This appendix provides additional information and guidance relating to our proposed criteria. We expect to publish it as a separate guidance document article, to be read in conjunction with our final criteria article. As such, this proposed guidance may undergo changes (some substantive) depending on the changes we chose to make to the final criteria article following the Request for Comment period.

104. Guidance documents are not criteria, as they do not establish a methodological framework for determining credit ratings. Guidance documents provide guidance on various matters, including: articulating how we may apply specific aspects of criteria; describing variables or considerations related to criteria that may change over time; providing additional information on nonfundamental factors that our analysts may consider in the application of criteria; and/or providing additional guidance on the exercise of analytical judgment under our criteria.

105. Our analysts consider guidance documents as they apply criteria and exercise analytical judgment in the analysis and determination of credit ratings. However, in applying criteria and the exercise of analytic judgment to a specific issuer or issue, analysts and rating committees may determine that it is suitable to follow an approach that differs from one described in the guidance document. Where appropriate, the rating rationale will highlight that a different approach was taken.

Extraordinary Support In The GCP

Table 3

Determining Uplift For Group Support--GCP Includes Extraordinary Support

	Financial Institutions Group	Bank Entity A	Bank Entity B	Insurance Entity C	Asset Management Entity D
Group Analysis					
Group SACP	'bbb+'				
Extraordinary support	+2 notches				
Potential GCP	'a'				
Relevant sovereign rating	'a+'				
Passes sovereign stress test	N.A.				

Table 3

Determining Uplift For Group Support--GCP Includes Extraordinary Support (cont.)

	Financial Institutions Group	Bank Entity A	Bank Entity B	Insurance Entity C	Asset Management Entity D
Impact of sovereign constraint	0				
GCP	'a'				
Entity Analysis					
SACP		N.A.	'bbb'	'bbb-'	'a-'
Group status		Core	Strategically important	Strategically important	Strategically important
Relevant reference point for group support uplift		GCP	GCP	Group SACP	Group SACP
Uplift for group support		N.A.	+2 notches	+1 notch	0
Potential ICR		'a'	'a-'	'bbb'	'a-'
Relevant sovereign rating		'a+'	'a+'	'a+'	'a+'
Passes sovereign stress test		N.A.	N.A.	N.A.	N.A.
Impact of sovereign constraint		0	0	0	0
Issuer credit rating		'A'	'A-'	'BBB'	'A-'

N.A.—Not applicable.

106. Table 3 gives examples of how we determine uplift for group support when the GCP includes extraordinary support. In the example, the group SACP is 'bbb+', and we determine there is a high likelihood of potential extraordinary government support to the group from an 'A+' rated sovereign (both local and foreign currency). Under our bank criteria, we determine the potential GCP is 'a', which includes two notches of uplift for potential extraordinary government support. The GCP is 'a' as the relevant sovereign rating of 'a+' does not constrain the GCP below the potential GCP.

107. The FI group in the example has four group members comprising a bank with core group status and three subsidiaries assessed as strategically important. In the case of bank A and bank B the reference point for determining uplift for group support is the GCP of 'a' as we expect extraordinary government support in the GCP would extend to the bank entities. As a core group member, the ICR on bank A is 'A', equal to the GCP. The ICR on bank B, a strategically important group member, is 'A-' as we cap the uplift for group support at one notch below the GCP. For the insurance and asset management entities, the relevant reference point for determining potential uplift for group support is the group SACP of 'bbb+' as we expect extraordinary government support in the GCP is not likely to extend to these entities. The ICR of strategically important insurance subsidiary C is 'BBB' as we cap the uplift for group support at one notch below the group SACP. Because the SACP of asset management subsidiary D is higher than the group SACP, the ICR is 'A-' as we do not constrain the ICR at the level of the group SACP. Had the SACP of subsidiary D been above the GCP, we would need to determine that it is an insulated entity for subsidiary D's ICR to exceed the GCP.

108. The approach laid out in the example applies if the expected extraordinary support in the GCP was from additional loss absorbing capacity (ALAC) rather than from government support. If we determine that ALAC support in the GCP extends to the banking entities, the relevant reference

point for determining any uplift for group support is the GCP. If we determine the ALAC support in the GCP is unlikely to extend to the insurance and asset management entities, the relevant reference point for determining any uplift for group support is the group SACP.

Impact of Sovereign Constraint on GCP

109. Consider an example where the potential GCP is 'a-' and the relevant sovereign rating is 'bbb'. The GCP would be 'bbb' (assuming the group does not pass the sovereign stress test) because the GCP is the lower of the potential GCP ('a-') or the relevant sovereign rating ('bbb'). We determine the relevant sovereign rating by applying Ratings Above the Sovereign criteria and consider, at a group level, the relevant foreign currency sovereign rating, the sovereign stress test (if relevant), the maximum rating differential above the relevant sovereign rating, and any transfer and convertibility constraints that are relevant for the group's local currency ratings (for example, cross default clauses).

Determining The Potential ICR

110. The potential ICR includes any adjustment defined in sector criteria to determine the ICR.

Impact Of Sovereign Constraint On ICR

111. A financial institution group might provide a bank group member with hybrid capital instruments that can absorb losses of the entity at or near nonviability in a way that reduces the risk of the entity defaulting, according to our definitions, on its senior unsecured obligations (we generally refer to such instruments as group internal loss absorbing capacity). In applying GRM, we consider such instruments to be ALAC support for the entity instead of extraordinary group support, if the entity and the instruments otherwise meet the conditions detailed in our ALAC criteria. We generally consider such ALAC instruments in determining whether the entity passes the sovereign stress test, if we assume that the entity's host regulator would enforce loss absorption by these instruments in a sovereign default scenario.

Identifying The Group And Its Members

112. To determine the identity of the group parent for purposes of conducting GRM analysis, we assess both the existence of control along with our judgment as to the relevance of the entity to the group's overall credit quality.

113. As a result, the group parent can be, but is not necessarily, the ultimate holding entity in the group structure. Any number of holding companies above the group parent may have been established for a variety of purposes (for example, tax considerations, regulatory requirements, or prefabricated platforms for future equity partners). If they do not hold material liabilities or operating assets, we may consider them inconsequential to the group's overall creditworthiness. As such, we may exclude these holding companies from our group analysis.

114. There are several types of owners that may control an entity we are rating but that we may not recognize as group parents because of our judgment as to their irrelevance to the group's overall creditworthiness. For example, we do not consider natural persons who directly hold controlling shares in an entity to be group parents. However, more often than not, natural persons or families may control their businesses through one or more holding companies. Such holding structures may include several successive layers of holding corporations, the relevance of which to the

group's overall creditworthiness we will assess as described above.

115. There may be other structural holding variations where a person or family hold controlling shares through a holding vehicle that may itself hold other minority or controlling shares in other companies with meaningful business operations. Alternatively, such holding vehicles may not have other business activities, but may carry a meaningful level of debt or other liabilities. In both instances, we may consider such holding companies to be relevant to the group's overall creditworthiness and, as a result, they could qualify as group parents because of their potential relevance to the credit risk of the entity.

116. Our consideration of nonprofit organizations (including non-governmental organizations (NGOs)), cooperative organizations, and investment holding companies as potential group parents depends on our view of both their control and relevance to the group's overall credit quality. When we expect such parents to play an active role in the group, including during times of credit stress, we may consider them a group parent. For example, the determination of whether to define nonprofit organizations (including NGOs) and cooperative organizations as the group parent largely depends on their role, to include charter mandates, track-record and relevant local regulations.

117. We may consider a mutual or cooperative group in the regulated financial services sector as a group even in the absence of a group parent or equity shareholdings between entities. For example, there may be legal, contractual, regulatory, or governance considerations that lead us to conclude that control is present and the entities collectively form the economic equivalent of a group. An example of such a group is a cooperative where all the entities in the group enter into a joint and several guarantee, the regulator and tax authorities view the entities as a single group, and there is a central body that exercises control such that we conclude that the entities form a group for purposes of defining the group and group members.

Identifying The Group And Its Members--Subgroups

118. We may determine there are two or more entities within a group that have common characteristics, or features, that are sufficiently unique or distinct from the larger group that warrants an evaluation of this group of entities as a separate group (also referred to as a subgroup).

119. The inclusion of entities within a subgroup is notional and can be separate from how a company operates or reports, and may change over time. Notionally grouping entities through the determination of a subgroup could, for example, be based on entities' location in a particular country.

120. Classification and recognition of group support for a subgroup will reflect our evaluation of the likelihood of the subgroup benefiting from extraordinary group support, similar to our evaluation of group entities. For example, we may capture a number of legal entities in a particular country that while small relative to the larger group are expected to receive support. Collectively, the entities may provide diversification and growth prospects within a larger group supporting a subgroup assessment.

121. A complex group can have more than one GCP where we determine a subgroup analysis is analytically relevant. For example, a subgroup analysis may be analytically relevant where there are material liabilities at the intermediate holding company of a subgroup. For an entity that is part of a subgroup, we may also consider i) the extent of insulation of the entity from the subgroup, and ii) whether group support would flow directly to the entity from the wider group or through the subgroup.

The Group SACP And GCP—Extraordinary Support

122. Potential sources of extraordinary external support to a group include ALAC support or support coming from a government. To determine the GCP of a subgroup, we also consider support from the wider group as a form of extraordinary external support. Similarly, the potential sources of extraordinary negative intervention can also emanate from a government or from a wider group (in the case of subgroups). Negative intervention can take tangible forms--such as would be the case with the extraction of unexpected extraordinary dividends--and intangible forms--such as would be the case if external events damage an entity's reputation. Another form of potential negative intervention would be what we consider shortsighted or politically motivated decision-making that may negatively influence the group's overall business strategy and ultimately be detrimental to the group's creditworthiness.

The Group SACP And GCP—Cross-Sector Groups

123. We could derive the group SACP using more than one sector rating methodology if we determine that no single sector rating methodology adequately captures our view of overall creditworthiness. We may combine the SACPs derived from various sector rating methodologies to determine a preliminary group SACP. We could modify this preliminary group SACP to reflect our holistic view of credit quality. This would include taking into consideration factors such as diversification, other group debt, and other positive or negative credit factors that may not be reflected in the underlying SACPs.

124. For instance, suppose there is a group comprised of a group parent that owns one corporate entity and one insurance entity where we believe no single sector rating methodology will result in a group SACP that reflects our view of overall creditworthiness. If, in this case, the individual SACPs are 'bb' and 'a', respectively, and we consider both to have equal influence on the overall creditworthiness of the group, we could average the SACPs resulting in a group SACP of 'bbb'. We could then adjust this according to our analytic judgment to derive the group SACP. For example, we may view diversification benefits as sufficient to raise the group SACP to 'bbb+'.

125. Alternatively, if we determine that the two entities above do not equally influence the overall creditworthiness of the group, but their influence comprises 75% and 25%, respectively, this would suggest a group SACP of one to two notches (representing the weighted average of the six-notch differential) above the 'bb' SACP. This would indicate a group SACP of 'bb+' or 'bbb-'. We may further adjust our result on the basis of analytic judgment to determine the group SACP.

Government-Related Entities

126. There can be specific circumstances where we may choose to apply our Government Related Entities (GRE) methodology, rather than a combination of GRE and GRM, when analyzing an entity classified as a GRE. For instance, this may occur when a GRE is ultimately owned by the government through a holding company or asset management company, and we believe that the GRE is controlled by the government. In such circumstances, we may not view the holding company or asset management company as a group parent because we don't view it as relevant to the analysis.

Assigning The Issuer Credit Rating

127. Consider the following example that illustrates the potential ICR outcomes where we determine

the SACP of a group member is 'bb' and the relevant reference point for determining uplift for group support is the 'aa-' GCP.

Table 4

Potential ICRs

Group Status	Potential ICR	
Core	GCP	'aa-'
Highly strategic	GCP -1 or GCP -2	'a+' or 'a'
Strategically important	SACP +3 or SACP +4	'bbb' or 'bbb+'
Moderately strategic	SACP +1	'bb+'
Nonstrategic	SACP	'bb'

128. In this example, the one-notch adjustment to determine the potential ICR is applicable as we have determined an SACP and the gap between the potential ICRs based on group status assessments of highly strategic ('a+') and strategically important ('bbb') is at least three notches (in this case there is a four-notch gap).

129. We may apply the one-notch adjustment to better capture our holistic view of potential extraordinary group support. If we assess the group member as highly strategic, we may determine the potential ICR is 'a+' or apply a negative one-notch adjustment such that the potential ICR is 'a'. If we assess the group member as strategically important, we may determine the potential ICR is 'bbb' or apply a positive one-notch adjustment such that the potential ICR is 'bbb+'.

Group Status Of Individual Members--Potential Sale Of An Entity

130. We may include uplift for group support, even if there is the potential for the sale of the entity, if we have sufficient information to believe the entity would be sold to a group that would be supportive of the entity's current creditworthiness. For example, if a leasing company were for sale and it was responsible for financing a significant portion of transportation assets in a given country, we could maintain the existing group status if we believe that the creditworthiness of the entity would be no lower following a sale. This underscores that we consider the impact of the potential sale on the entity's creditworthiness to the extent possible.

Group Status Of Individual Members--Determining An SACP

131. Determining an SACP is necessary for group members that have strategically important, moderately strategic, or nonstrategic group status. Determining a SACP is not typically necessary for core or highly strategic group members. However, assessing an SACP for a core or highly strategic group member can be required or analytically relevant in situations such as:

- (a) In the event that group status diminishes;
- (b) To determine the group SACP of a diverse group;
- (c) When the group member is insulated;
- (d) When the SACP (or the SACP + ALAC uplift) is above the group SACP and the group SACP is the relevant reference point for group support uplift;
- (e) When rating hybrid instruments that are issued by the group member and we determine

group support in the ICR does not benefit the hybrid instrument;

- (f) When uplift for group support is limited by sovereign-related risk but the entity is likely to pass the sovereign stress test; and
- (g) In the case of highly strategic group members that, as per the section "Assigning The Issuer Credit Rating (ICR)" of the criteria, we may apply a one-notch adjustment to the potential ICR (as described in table 1 and paragraph 48) to better reflect our holistic view of potential extraordinary group support.

Group Status of Individual Members—Core Entities

132. A core group entity generally either constitutes a significant proportion of the consolidated group or is integrated with the group. An integrated group entity refers to an entity that depends on the rest of the group for its administrative and operational activities and its infrastructure. These operational factors render it highly likely to benefit from group support if required. Examples can include booking or cost centers, captive insurers, captive financing operations, and group entities that exist solely to issue debt or carry on treasury operations on behalf of a group.

133. While a core group entity has typically been operating for about five years or more, there may be cases where a core group member has a shorter operating history because, for example, it has been established to serve an important customer segment or to comply with regulatory or tax requirements.

Financing Subsidiaries--Financial Institution Group

134. When a financing subsidiary of a financial institution group is wholly owned but its sole activity is to raise debt on behalf of the holding company, it is typically assigned a rating as if it were a holding company (as opposed to being considered core to the group). This may be the case, for example, for financing subsidiaries of banking groups where we determine the support flowing to the operating company and reflected in the GCP does not support to the same extent obligations associated with the financing subsidiary.

Financing Subsidiaries--Insurance Group

135. We generally do not assess the group status of a financing subsidiary of an insurance group as core. However, we may assign core group status to a financing subsidiary of an insurance group where:

- It plays an integral role in issuing hybrid instruments that qualify as regulatory capital for the insurer;
- Its sole activity is to raise such capital for the insurer. For example, there is a clear written irrevocable commitment to stand behind the hybrid instruments of the financing subsidiary, thus reducing the importance of the legal separation of the entities;
- It is wholly-owned by the operating insurance company;
- It shares a related corporate name; and
- Issuance by the entity is motivated by regulations in the relevant jurisdiction.

Investment Holding Companies

136. We may consider some investment holding companies (IHCs) (as defined in our article "Methodology: Investment Holding Companies", Dec. 1, 2015) as group parents while we may determine that others are not group parents. This will depend on both the existence of control as well as our judgment as to the relevance of the entity to the group's overall credit quality. For example, IHCs that own a noncontrolling equity stake cannot be group parents because they do not have control, as defined in GRM criteria.

Insulated Entities—Minority Shareholders

137. The presence of significant minority shareholders can place meaningful limitations on the group's control of an entity. These limitations support the insulation of the entity from the rest of the group and contribute to a potential ICR on the entity that is two notches above the GCP. Many jurisdictions have specific regulations in place to protect the rights of minority shareholders vis-à-vis the ruling majority. Examples of effective rights that limit the control of a majority shareholder include the requirement to attain a majority vote from the minority shareholders, in order to undertake any material changes in the entity's financial or business policies, or to file for voluntary bankruptcy. Even without targeted favorable legislative treatment, an organized minority block with adequate board representation often has sufficient power to prevent dividend payments and to influence decision-making effectively. Such minority shareholders would be unaffiliated with the majority shareholder and would have an active interest and role in corporate governance and the rights to ensure that the entity is adequately capitalized to conduct its business operations with a long-term view.

Insulated Entities--Structural Safeguards

138. To determine whether we expect a regulator to act to protect the credit quality of an entity, we may look to publicly stated policies.

Insulated Entities--Banks

139. We do not apply our typical insulation analysis, as per paragraphs 72-74, for banks with a potential ICR that is above the GCP because of high systemic or moderate systemic importance. In these cases, we apply paragraph 77 to determine insulation. In addition, we consider the impact of the insulation on the group SACP (see paragraphs 33 and 34 of the criteria).

Holding Companies--Insurance Standard Notching

140. To determine the ICRs on holding companies of insurance groups, we consider potential regulatory restrictions to payments. Where we consider the regulation of insurance companies results in a higher likelihood of constraints on the movement of cash flows to the holding company (often referred to as high structural subordination for the entity), we typically consider potential regulatory restrictions as high, for example in the U.S.

Holding Companies--Narrower Notching

141. In determining whether to apply narrower than standard notching for a holding company, we

typically assume holding companies of financial institution groups will not retain significant unencumbered cash as their primary role is to lend or invest cash to generate earnings. For holding companies of insurance groups, we typically expect more than one of the characteristics in paragraph 82 to be sustainably present in order to narrow the notching. In determining whether to eliminate the notching for insurance groups and prudentially regulated financial institution groups, we typically expect the holding company to generate sufficient cash flows from its own business activities or from unregulated operating subsidiaries and we consider the regulatory environment. For example, in the U.S., elimination would be unlikely.

142. For some financial institutions, for example those that are rated speculative-grade and whose anchors (see the relevant respective frameworks) are low and already reflect a weak regulatory environment, we may narrow the gap (number of rating notches) between the holding company and the GCP from the standard notching because the assumption of regulatory restrictions to payment typically reflected in the standard gap does not apply. We consider this equivalent to an unregulated operating subsidiary.

Holding Companies Of Prudentially Regulated Financial Services Groups--Liquidity

143. For holding companies of financial services groups, we typically include committed undrawn capacity of liquidity facilities available for general corporate purposes when considering the available liquidity resources. We do not include uncommitted facilities, facilities that require encumbrance, or revolvers.

Holding Companies Of Prudentially Regulated Financial Services Groups—Financial Institutions

144. For financial institutions, high double leverage can create potential liquidity risks for the holding company that may lead us to apply wider than standard notching. In the absence of offsetting liquidity at the holding company, we may consider double leverage as high if, for example, it exceeds 120%. Alternatively, if we view net income as particularly germane to our assessment of the group, we may consider if the nominal amount of double leverage exceeds two years' net income of the group, which would also indicate high double leverage.

Holding Companies Of Prudentially Regulated Financial Services Groups—Intermediate Holding Companies

145. Treatment of intermediate holding companies depends on the role and nature of constraints on the transfer of cash flow across the group. Consider an insurance subgroup headed by an intermediate holding company that is part of a prudentially regulated financial institution group. The GCP is 'a-' and the ICR of the holding company is 'BBB+'. We determine the insurance subgroup is core to the group and its group members are core to the subgroup. The ICRs on the insurance operating entities are 'A-'. The ICR of the intermediate holding company is 'BBB+', as we apply the same notching as we do for the holding company of the group. Furthermore, we determine there are no additional considerations to widen or narrow the notching.

146. Consider another example, an insurance subgroup that is part of a corporate group. We determine the group status of the insurance subgroup is nonstrategic, and it is eligible for three notches of insulation from the group. The GCP is 'bbb', the ICR on the holding company is 'BBB', and the insurance subgroup GCP is 'a'. The ICRs on the insurance operating entities are 'A' as we

determine they are core to the subgroup. Although the ICR of the holding company is at the same level as the GCP, we conclude that wider notching applies to the intermediate holding company to reflect risks relating to cash flows from its regulated operating entities on which it is reliant. We set the ICR of the insurance intermediate holding company at 'BBB' as we conclude potential regulatory restrictions to payment are high and determine in this case to widen the holding company notching to three notches in line with the standard notching for holding companies of insurance groups.

Rating Group Entities Above The Sovereign

147. We may assign ratings to group members above the relevant sovereign rating when specific factors lessen the expected influence of sovereign risk. We apply GRM to determine whether uplift for group support can result in an ICR on a group member being higher than the relevant sovereign rating.

148. We apply the transfer and convertibility (T&C) test in ratings above the sovereign criteria to determine whether to assign a foreign currency ICR on a group member above the T&C assessment. As a result, uplift for group support does not result in a group member's foreign currency ICR being higher than the T&C for the relevant sovereign.

149. Table 5 lists five examples of how sovereign constraints can affect the ICR on group members.

Table 5

The Effects Of Sovereign Constraints On Group Member ICRs

	Entity A	Entity B	Entity C	Entity D	Entity E
Sector	Bank	Corporate	Insurance	Corporate	Bank
Group SACP	‘a’	‘a’	‘a’	‘a’	‘a-’
GCP	‘a’	‘a’	‘a’	‘a’	‘a’
SACP	‘bbb’	‘bbb+’	‘bbb+’	‘bbb’	‘bbb’
Group status	Strategically important	Strategically important	Highly strategic	Core	Strategically important
Uplift for group support	+2 notches	+1 notch	+1 notch	+3 notches	+2 notches
Potential ICR	‘a-’	‘a-’	‘a-’	‘a’	‘a-’
Relevant sovereign rating	‘bbb’	‘bbb’	‘bbb’	‘bbb’	‘bbb’
Passes sovereign stress test	N.A.	Yes	N.A.	N.A.	Yes
Impact of sovereign constraint	-2 notches	-1 notch	0	-3 notches	-1 notch
ICR	‘BBB’	‘BBB+’	‘A-’	‘BBB’	‘BBB+’

N.A.--Not applicable.

150. Entity A. The potential ICR is 'a-' (SACP + 3 notches, but capped at one notch below the GCP), and the ICR is 'BBB' as the group member's ICR is the lower of the potential ICR ('a-') and the relevant sovereign rating, which in this case is the foreign currency sovereign rating ('bbb'). Uplift for group support does not result in the ICR on the group member being higher than the relevant sovereign rating for a strategically important group member.

151. Entity B. In this case, the entity passes the sovereign stress test and the maximum rating differential above the sovereign foreign currency rating is limited to two notches. The potential ICR is 'a-' and the ICR is 'BBB+' as the potential ICR group member (excluding uplift for group support) is 'bbb+', which is above the relevant foreign currency sovereign rating for the group member, and the group member passes the appropriate sovereign stress test. Ratings uplift for group support does not result in the ICR assigned to the group member being higher than the relevant sovereign rating for a strategically important group member.

152. Entity C. The potential ICR is 'a-' (i.e., GCP – 1). As a highly strategic group member, uplift for group support can result in the ICR on a group member being higher than the relevant sovereign rating. We determine the group is willing and able to support the group member during the stress associated with a sovereign default. The ICR is 'A-' as the ICR on the group member is the lower of the potential ICR ('a-') or two notches above the relevant sovereign foreign currency rating ('a-').

153. Entity D. The potential ICR is 'a' (equal to the GCP). As a core group member, uplift for group support can result in the ICR on the group member being higher than the relevant sovereign rating. However, we determine that the group is willing but unable to support the group member during the stress associated with a sovereign default. The ICR is 'BBB' as the ICR on the group member is the lower of the potential ICR ('a') or the relevant sovereign foreign currency rating ('bbb').

154. Entity E. The GCP includes uplift for ALAC support and we expect the extraordinary support in the GCP to extend indirectly through the group to the entity. We also determine the entity is eligible for one notch of extraordinary ALAC support based on group internal loss absorbing capacity provided from the group parent. The two notches of uplift for group support represent the greatest source of extraordinary support (before considering any relevant sovereign constraints), therefore the potential ICR on the bank is 'a-'. As a strategically important entity, uplift for group support does not result in the ICR on the group member being higher than the relevant sovereign rating ('bbb'). However, we determine that including the ALAC instruments would enable the entity to pass the sovereign stress test. The ICR is 'BBB+' as the group member's potential ICR (but excluding uplift for group support) is 'bbb+' (SACP of 'bbb' + one notch of uplift for ALAC support), which is itself higher than the relevant foreign currency sovereign rating for the group member, and the group member passes the appropriate sovereign stress test. In this case, uplift for ALAC support is the highest source of extraordinary support, after considering any relevant sovereign constraints.

RELATED CRITERIA AND RESEARCH

Criteria to be superseded

- Group Rating Methodology, Nov. 19, 2013.

Related Criteria

- Guarantee Criteria, Oct. 21, 2016
- The Impact Of Captive Finance Operations On Nonfinancial Corporate Issuers, Dec. 14, 2015
- Methodology: Investment Holding Companies, Dec. 1, 2015
- Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015

- Corporate Methodology, Nov. 19, 2013
- Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Insurers: Rating Methodology, May 7, 2013
- Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Principles Of Credit Ratings, Feb. 16, 2011
- Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- Senior Living, June 18, 2007

This report does not constitute a rating action.

The proposed criteria represent the specific application of fundamental principles that define credit risk and ratings opinions. Once proposed criteria become final, their use is determined by issuer- or issue-specific attributes as well as our 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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