

# Hybrid Capital Methodology And Assumptions Published

July 1, 2019

LONDON (S&P Global Ratings) July 1, 2019--S&P Global Ratings said today that it has published its framework for assessing equity content for and assigning a rating to a hybrid capital instrument. The criteria also clarify how we consider hybrid instruments when assessing the capitalization or cash flow/leverage, and thus the creditworthiness of the issuer.

We apply these criteria to all hybrid instruments issued by corporate, financial institution, and insurance entities. It also applies to conventional nondeferrable subordinated debt (NDSB) issued by banks. Project finance issuances are excluded from the scope of this criteria, except that our criteria for assigning 'C' and 'D' ratings also apply to project finance issues. The impact of the criteria on equity content classifications, issue credit ratings, and issuer credit ratings differs by sector.

The criteria explain how we:

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

Hybrid capital generally refers to an instrument that has characteristics of both debt and equity, and therefore excludes common equity. We consider an instrument to be a hybrid capital instrument if, and only if, without causing a legal default or liquidation of the issuer, it can absorb losses or conserve cash. Examples of such loss absorption or cash conservation include:

- Deferral of the coupon;
- Write-down of principal; or
- Conversion into common equity or another hybrid capital instrument.

The article, titled "Hybrid Capital: Methodology And Assumptions" was published in conjunction with a guidance document (see "Guidance: Hybrid Capital: Methodology And Assumptions") and follows our "Request For Comment: Hybrid Capital: Methodology And Assumptions," published Nov. 26, 2018. For a comparison of the changes between the request for comment and the final criteria, see "RFC Process Summary: Hybrid Capital: Methodology And Assumptions," published July 1, 2019.

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This report does not constitute a rating action.

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