Article Title: ARCHIVE | Guidance | General Criteria: Assigning Equity Content To Hybrid Capital Instruments Issued By Corporate Entities And Other Issuers Not Subject To Prudential Regulation Data: (EDITOR'S NOTE: —This article has been superseded by "Guidance: Hybrid Capital: Methodology And Assumptions," published July 1, 2019.) Overview And Scope This guidance document provides additional information and guidance relating to our criteria article, "Methodology And Assumptions: Assigning Equity Content To Hybrid Capital Instruments Issued by Corporate Entities And Other Issuers Not Subject To Prudential Regulation," published on Jan. 16, 2018. It is intended to be read in conjunction with that criteria. For further explanation of guidance documents, please see the description at the end of this document*. Key Publication Information Original publication date: Jan. 16, 2018. This article is related to "Methodology And Assumptions: Assigning Equity Content To Hybrid Capital Instruments Issued by Corporate Entities And Other Issuers Not Subject To Prudential Regulation," published on Jan. 16, 2018. We may revise this guidance from time to time when market dynamics warrant reevaluating the variables we generally use in our analysis. Guidance Issuance of a replacement hybrid that qualifies for intermediate or high equity content A replacement hybrid does not need to be issued within 12 months of repurchase of the original hybrid if we are confident that it was issued to replace the original hybrid, and otherwise qualifies for intermediate or high equity content. Terms and conditions of a replacement hybrid A replacement hybrid does not need to have the same terms and conditions as the original instrument to qualify for intermediate or high equity content. If the original hybrid had intermediate equity content, the replacement hybrid must have intermediate or high equity content, or be common equity. If the hybrid is replaced by another intermediate hybrid, the new hybrid does not need to match the terms of the original hybrid. For example, a hybrid with a noncall period of 10 years could be replaced by a hybrid with a noncall period of five years, assuming the replacement hybrid otherwise meets the criteria for intermediate equity content. Assessing equity content The following are a non-exhaustive list of examples for illustrative purposes: Assessing equity content when a hybrid tender offer does not receive 100% take-up Consider an example where an issuer issues a $1 billion replacement hybrid two years before the five-year, first call option date on an existing $1 billion intermediate equity content hybrid, and then immediately tenders for the original instrument, but attracts only 50% take-up under the tender offer. If we are confident that the replacement instrument is intended to replace the original instrument and meets our criteria for intermediate equity content, we would ascribe intermediate equity content to the full amount of the new hybrid. However, we would reduce the equity content on the residual original hybrid to minimal if we treat the call date of the original instrument as its effective maturity. This would occur when we expect the issuer will either redeem the remaining amount at the call date or buy it back before the call date. Such a scenario would also not adversely affect our equity content assessment on the group's other existing or future hybrid issuances, all other things being equal. Assessing equity content when a hybrid exchange offer does not receive 100% take-up Consider an example where an issuer undertakes an exchange offer with an existing $1 billion intermediate hybrid two years prior to a five-year first call date, but attracts only 80% take-up under the exchange offer: If we believe that the issuer remains committed to maintaining the total $1 billion of hybrid capital as a permanent part of its capital structure, we would generally continue to maintain intermediate equity content on both the remaining portion of the existing instrument and the new instrument (in this example, the new instrument qualifies for intermediate equity content). If, on the other hand, we expect the total outstanding amount of hybrid capital to reduce, we could reassess management intent toward the hybrid capital layer, depending on the magnitude and potential impact on the issuer's credit quality. Assessing equity content if instruments remaining outstanding following an exchange offer are redeemed without replacement If, for example, 20% of a hybrid remains outstanding following an exchange offer and is redeemed without replacement, this would not necessarily disqualify the issuer from intermediate or high equity content on all current and future hybrids. The level of equity content for the replacement hybrid would depend on our assessment of the feasibility of replacing the residual hybrid amount and the impact of nonreplacement on the issuer's credit profile. If we believe that due to the size of the residual amount, it is not practical to issue equity or to raise a new hybrid as a replacement, we may continue to assign intermediate or high equity content to the issuer's existing and future instruments. However, this would assume that the reduction in hybrid capital is immaterial to the issuer's credit profile and that management's intentions toward its remaining hybrid capital remain supportive. To illustrate this further, if we assume that the initial instrument was $250 million, and hence, the residual 20% was $50 million, we may consider it unfeasible to raise equity or issue a replacement instrument for the remaining amount. Accordingly, assuming that a redemption without replacement would have no material impact on the issuer's credit profile, we may continue to ascribe equity content to the issuer's existing and future hybrids. However, if the initial instrument was $1.5 billion, and the remaining 20% was $300 million, we would be less likely to consider redemption without replacement as consistent with having equity content. Replacing a hybrid with a larger instrument If an issuer issues an intermediate replacement hybrid that is larger than the one being replaced, it can achieve intermediate equity content on the full amount of the replacement instrument assuming that: It meets our criteria for intermediate equity content; We do not expect hybrid issuance to exceed any applicable limits or typical thresholds over the ratings and forecast horizon; and We consider management intent supportive of this assessment. Related Criteria And Research Related Criteria Methodology And Assumptions: Assigning Equity Content To Hybrid Capital Instruments Issued by Corporate Entities And Other Issuers Not Subject To Prudential Regulation, Jan. 16, 2018 Reflecting Subordination Risk In Corporate Issue Ratings, Sept. 21, 2017 Issue Credit Rating Methodology For Nonbank Financial Institutions And Nonbank Financial Services Companies, Dec. 9, 2014 The Treatment Of Non-Common Equity Financing In Nonfinancial Corporate Entities, April 29, 2014 Criteria Clarification On Hybrid Capital Step-Ups, Call Options, And Replacement Provisions, Oct. 22, 2012 Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008 2008 Corporate Criteria: Rating Each Issue, April 15, 2008 Related Research RFC Process Summary: Hybrid Capital Instruments Issued By Corporate Entities And Other Issuers Not Subject To Prudential Regulation, Jan. 16, 2018