Article Title: Criteria | Structured Finance | General: Criteria For Transactions Referencing Credit Derivative Definitions And Documentation Data: (EDITOR'S NOTE: —On April 21, 2023, we republished this criteria article to make nonmaterial changes. See the "Revisions And Updates" section for details.) OVERVIEW AND SCOPE 1. These criteria describe what S&P; Global Ratings considers when reviewing credit default swap (CDS) documentation or similar risk transfer mechanisms that form part of synthetic collateralized debt obligation (CDO) and other transactions we rate. Terms used in the confirmation are usually defined in the credit derivative definitions published by the International Swaps and Derivatives Association Inc. (ISDA). An ISDA master agreement tends to be the standard agreement commonly used to govern over-the-counter (OTC) derivatives transactions internationally, while providing certain legal and credit protection for parties involved. 2. Credit derivative definitions do not apply automatically to transactions with credit derivatives until they are referenced in the CDS documents. S&P; Global Ratings checks which version of the ISDA definitions apply to documents and evaluates the impact of the documentation on the structure and rated notes. Throughout this article, we refer to CDS standard terms as these are defined in the ISDA credit derivative definitions and our understanding of their effects on transactions. 3. S&P; Global Ratings follows the ongoing developments and changes to the ISDA documentation and, when necessary, adapts its criteria to accommodate such changes. The specific application of these criteria to transactions referencing the credit derivative definitions published by ISDA is described in detail in the appendix. If the ISDA documentation is not used in a transaction, we would analyze the template or documentation used in its place. 4. These criteria apply globally to synthetic CDO transactions, credit linked notes (CLNs), and other structured finance transactions that use CDSs referencing terms described in the credit derivative definitions. The criteria may also apply to other transactions that incorporate similar risk-transfer mechanisms and concepts in their terms as those commonly found in CDSs--for example credit events and settlement mechanisms--and where they are deemed relevant to the analysis. METHODOLOGY 5. S&P; Global Ratings' methodology for analyzing transactions that reference credit derivative definitions and documentation mainly outlines the review of reference entities and obligations, reference prices, credit events, settlement mechanisms, and deliverable obligations, and the calculation of a loss amount, where relevant. 6. Transactions that use CDS are typically accompanied by a schedule, a master agreement (see chart), and often a credit support annex (CSA). Criteria related to schedules, master agreements and CSAs are found in our global derivative agreement criteria (see the Related Criteria section at the end of this article). Reference Entities And Reference Obligation Categories And Characteristics 7. The reference entities and reference obligations in a CDS define the credit-risk exposure, as they are the synthetic version of assets in cash transactions. The obligations can be direct obligations of the reference entity or obligations guaranteed by the reference entity on behalf of its downstream affiliate or other entities. 8. The reference entity of a CDS defines which underlying credit risk is being transferred from the buyer to the seller of protection. It refers to the debt-issuing entity (say, ABC Ltd.) while the reference obligation refers to the debt obligation issued by that reference entity (say, the senior unsecured debt of ABC Ltd. with a 10-year maturity). The reference obligation determines the minimum seniority of an eligible deliverable obligation under a credit derivative. The reference obligations and reference entity are relevant for determining whether or not a credit event has occurred. 9. The CDS can reference a specific debt issue (typically indicated with a CUSIP or ISIN number) or can reference all or a portion of the reference entity's debt issues. This will be determined by the choice of reference obligation category. In addition, the reference obligation can be specified further by choosing one or more characteristics, thereby effectively narrowing the risk spectrum. The reference obligation category and characteristics need to mirror the obligations for which the protection buyer seeks protection. If, for example, the protection buyer seeks protection on a loan issued by company X but the CDS refers to a bond issued by company X as the reference category, then the protection buyer is not protected. For the same reason, it is important that the names of the relevant parties are correctly spelled and that the correct entity is named in the documentation. 10. S&P; Global Ratings will review the choice of reference entity and reference obligation category and characteristics, as this will determine the credit risk of the portfolio. This analysis will depend on the type of entities, such as corporates and sovereigns, and will determine if the entities are also considered to be defaulted according to S&P; Global Ratings' definitions of credit ratings. If an obligation category or characteristic is not consistent with our definition of default, then the likelihood of default that S&P; Global Ratings uses in the analysis would not be representative of the probability that a default will occur according to the CDS documentation. 11. The reference in the credit derivative definition to successor entities is material to S&P; Global Ratings' analysis only to the extent that an unrated successor may cause ratings volatility to the portfolio, or if an attempt is made to define a succession event as a credit event despite the lack of a negative credit implication, which is not in line with S&P; Global Ratings' definition of default. Credit Events 12. A credit event is a proxy for the default of an asset, as both a credit event and default represent the moment at which the investor may suffer a loss. Consequently, S&P; Global Ratings will review the definition of credit event to assess whether it is consistent with our definition of default. If this is not the case, we may conduct additional analysis. Settlement Of Credit Events 13. The occurrence of a credit event is the key event that causes the seller of CDS protection to make payments to the buyer. Determining that such an event has occurred is an important component before this protection payment can be made. Generally, the occurrence of a credit event is determined when there is a determination committee (DC) credit event announcement, or when a credit event notice and notice of publicly available information are delivered from one counterparty to another. 14. If the credit event is not declared through a DC credit event announcement, we generally look for both a credit event notice and a notice of publicly available information to have been delivered to the protection seller in transactions. The credit event notice is simply an attestation that a credit event has occurred and includes a description of the relevant details. We expect the notice of publicly available information to further indicate the sources of the information that have led the calculation agent to conclude that a credit event has occurred. We also generally expect publicly available information to include internationally recognized public news sources or, in some cases depending on the nature of the reference obligations, local news sources. Finally, we expect all notices to describe events that occur on or between the effective date of the transaction and the scheduled termination date (and grace period) under the relevant business day conventions. 15. If the credit event is declared through a DC credit event announcement, we assume that necessary notices, as well as publicly available information, are provided to the credit derivatives DC for such determination to have been made. 16. The deliverable obligation in a CDS defines the defaulted asset that will be used to establish compensation to the protection buyer. The deliverable obligation category and characteristics further detail the exact nature of the asset that can be valued or delivered. S&P; Global Ratings' reviews the deliverable obligation category and characteristics to determine their applicability to a given transaction. As deliverable obligations determine the recovery achieved upon a credit event, for the purpose of our analysis, we consider solely deliverable obligation categories for which we can establish recoveries, such as: bond or loan, bond, loan, and reference obligation only. 17. When the documentation allows for the delivery of an asset package, the original bond in its restructured form can be delivered and, therefore, in our view, no changes to our recovery assumptions are needed. We believe that the clauses provide for a way to address the difficulties encountered by the market in settling CDS contracts referencing debt that had been subjected to a restructuring through a bail-in or forgiveness of sovereign debt. 18. If a default has occurred, as defined by the credit event definition, a process will be initiated to establish the recovery value. This process is referred to as "the settlement mechanism." Typically, one of three settlement mechanisms is used, namely: auction settlement, physical settlement, or cash settlement. 19. We analyze the settlement mechanism to determine the recoveries that can be assigned to the transaction. When the physical settlement process is used, the cash flow impact on the special purpose entity (SPE) needs to be examined since the protection seller must make a full payment with respect to the defaulted reference obligation after default. Therefore, the cash flow analysis needs to take the full amount to be paid into account. The manager, calculation agent, or protection seller (as appropriate) plays an important role, as this party will be responsible for achieving recoveries after having received the defaulted security through either sale or workout. When cash settlement is used, the value will typically be established by requesting bids from various market participants. Auction settlement is another way to settle the CDS contract, with the auctions establishing the market price for the defaulted bonds. Reference Price And Loss Calculation 20. The reference price is the percentage specified in the related confirmation; typically, a reference price of 100% of par is selected. If a lower reference price is selected, the discount, which is represented by a cash payment to the SPE, must be retained in the structure. S&P; Global Ratings would seek an explanation as to why the SPE entered into an off-market CDS. 21. After the recovery value of the defaulted asset has been established through an auction, cash, or physical settlement process, it is possible to calculate the loss amount. The loss amount is the actual dollar amount of loss suffered by the protection seller. This is the loss that will be suffered by the SPE and, hence, by the investors who purchased the notes. In analyzing the loss amount, we will confirm that the loss calculation is not influenced by any elements other than the notional amount and the recovery value, which are already taken into consideration and sized for in the analysis. 22. S&P; Global Ratings will review the formula and the parties involved to calculate the loss amount. Once the loss amount has been calculated, we will review when the notes are written down. 23. This paragraph has been deleted. 24. This paragraph has been deleted. APPENDIX: APPLICATION TO TRANSACTIONS REFERENCING THE CREDIT DERIVATIVE DEFINITIONS PUBLISHED BY ISDA Reference Entities And Reference Obligation Categories And Characteristics 25. This section provides further detail on what to consider when reviewing reference entities and obligations as outlined in paragraphs 7-11 of the criteria. Standard reference obligation 26. If the 2014 ISDA credit derivatives definitions and their 2019 supplement (hereafter referred to as "2014 ISDA definitions") are referenced, unless the parties to the CDS affirmatively disapply this term, the standard reference obligation (SRO) is the reference obligation for the relevant reference entity for the relevant seniority level, which can be found on a list published by ISDA. Therefore, if the term is applicable, the parties no longer need to specify a reference obligation for these reference entities. Nonstandard reference obligation 27. If the SRO is not applicable or not existing, the parties can specify a reference obligation (nonstandard reference obligation). Reference obligation category 28. For corporate entities, the following reference obligation categories are consistent with our rating definition of default: borrowed money, bonds or loans, bonds, loans, and reference obligation only (see chart). The borrowed money category is most often selected and includes default of any bond, loan, and, generally, any obligation to repay borrowed money at some point in the future. 29. The payment category is not consistent with our rating definition of default, as this category is too broad and could include commercial contracts, such as utility bills, which do not constitute debt. Commercial contracts are often the subject of commercial disputes and are not generally material to our rating analysis. 30. S&P; Global Ratings reviews the choice of reference entity and reference obligation category and characteristics, as this will determine the credit risk of a transaction. For corporate reference entities, to the extent the reference obligation category and characteristics are consistent with our definition of default, S&P; Global Ratings generally uses the issuer credit rating on the reference entity as a proxy of creditworthiness and as the rating input to run the CDO Evaluator if appropriate (for synthetic CDO transactions, for example). The maturity used in the CDO Evaluator is typically the maturity of the CDS, as this is the period during which the CDO is exposed to credit risk. Therefore, the maturity of the individual reference obligation is not relevant. However, if the reference category is specific reference obligation only, we typically use the earlier of the underlying asset or the contract maturity date as the input for the CDO Evaluator. However, for single name CLNs, we may use the issue rating of the reference entity, as appropriate. Reference obligation characteristics 31. S&P; Global Ratings generally reviews the following reference obligation characteristics: Not subordinated: If chosen, the defaulted obligation must be of equal ranking or senior to the reference obligation listed. If not chosen, the reference characteristic will be senior unsecured. Specified currency: If no specific currencies are chosen, the following currencies will automatically apply: Canadian dollars, Japanese yen, Swiss francs, British pounds sterling, U.S. dollars, and euros. S&P; Global Ratings is comfortable with the exchange control risks posed by these currencies and those of the Australian dollar, given that such risks are already addressed by the foreign currency rating on the reference entity. We assess other currencies on a case-by-case basis. Additionally, S&P; Global Ratings will determine whether the exchange risk is present. Not sovereign lender, not domestic currency, not domestic law, not domestic issuance: S&P; Global Ratings will review the applicability of these characteristics to the transaction in order to determine whether the foreign currency ratings on the reference entity would capture these risks. Listed: This refers to an obligation that is quoted and traded on an exchange. If chosen as a characteristic, the reference obligations cannot be loans. Successor to reference entity and obligations 32. The credit derivative definitions elaborate on the situation that arises when a reference entity ceases to exist, but there is a successor to that reference entity. The definitions apply a look-back period to all succession events that have occurred within 90 days of the relevant succession event. The 2014 ISDA definitions also include the term "universal successor," which introduces a single backstop date of Jan. 1, 2014, and mitigates the risk of having a CDS not linked to any entity due to the entity being dissolved or ceasing to exist. Credit Events 33. This section provides further detail on what to consider when reviewing credit events as outlined in paragraph 12 of the criteria. Credit events with respect to corporate reference obligations 34. For corporate debt, S&P; Global Ratings' definition of default would incorporate the following events: Payment default; Bankruptcy of the reference entity; and Material cross-default with another debt instrument (selective default or 'SD'), downgrade to 'D', or, in certain circumstances, withdrawal of the rating by S&P; Global Ratings. 35. Thus, the ISDA defined credit events that we currently view as proxies for defaults are: Failure to pay, with the standard payment thresholds, Bankruptcy, Obligation acceleration, Restructuring, and Governmental intervention (introduced in the 2014 ISDA definitions). 36. The failure to pay refers to the failure to receive a payment under the terms of an obligation, after the applicable grace period has expired. This generally constitutes a default. 37. Generally, we consider the ISDA definition of a bankruptcy credit event to be consistent with the definition we use in the context of our corporate rating analysis. Our review will consider whether the definition used in a transaction is wider than the insolvency-related events in our corporate rating analysis. 38. Obligation acceleration concerns the situation, excluding a failure to pay, where the relevant obligation becomes due and payable before its normal expiration date. We view this as a credit event on the basis that a trustee may declare an event of default for a myriad of reasons, but will initiate acceleration only if it is determined that fiduciary duty mandates an action of such severity. Once a declaration of acceleration is made, it qualifies as a credit event in the credit derivative definitions only if notice of this acceleration is available via publicly available information. Debt payment accelerations typically result in obligation repayment or default. Acceleration often leads to payment default and, if this occurs, it is covered by our definition of default, which is why we typically consider obligation acceleration as a credit event. 39. Generally, restructuring refers to cases in which terms of the reference obligation are modified in such way to become less favorable to its creditors. For example, this definition may include events such as reduction in interest, reduction in principal, (including by the way of redenomination), postponement, change in seniority, and change in currency. 40. The 2003 and 2014 ISDA definitions with respect to restructuring are consistent with our definition of default. However, if a transaction uses a different ISDA definition, such as the 1999 ISDA definition, we may determine that the definition of restructuring would not result in a default of the referenced entity as per our definitions of ratings. Therefore, we may choose to not rate the transaction or increase the enhancement levels by lowering recoveries, or to proxy the creditworthiness of that reference entity with a lower rating. 41. While a write-down of interest or principal could occur due to redenomination, the revised definition of restructuring in the 2014 ISDA definitions considers that redenomination out of euros will not be a restructuring, subject to some conditions. These conditions are: if the redenomination is an action of the government; if there is a free market for conversion between euros and the other currency; and if there is no write-down of interest, principal, or premium. Even if that new currency depreciates against the old currency, a government-imposed redenomination will not be considered a failure to pay credit event. 42. Repudiation/moratorium is an event that may be included as a credit event. S&P; Global Ratings' country risk and transfer and convertibility (T&C;) risk assessments capture the likelihood of moratorium (see the country risk and T&C; risk assessments criteria in the Related Publications section). Since the rating on a corporate reference entity already incorporates country risk considerations and may be further constrained by the sovereign and T&C; risks, the inclusion of this event is consistent with our rating definition of default. 43. Governmental intervention is a credit event introduced in the 2014 ISDA definitions that can be triggered as a result of the action of a governmental authority. This credit event generally takes into consideration bail-in legislations and clarifies that bail-ins are to be considered credit events. This credit event is a variation of a restructuring event, and it encompasses reductions of interest or principal payments (including by way of redenomination) and deferrals in interest and/or principal, the changing of ranking of priority causing the subordination of the relevant obligation, changes in currencies, expropriations, mandatory cancellations, conversions and exchanges, and other analogous events. This credit event does not require the presence of deterioration in the creditworthiness of the reference entity to be triggered. We believe that this credit event is in line with our definition of default, as it reflects a government's decision to force losses on certain bondholders eligible for bail-in in order to bail out the referenced entity. 44. The 2014 ISDA definitions introduced a new concept of financial reference entity terms, which may be specified in the confirmation of a CDS. Under the 2014 ISDA definitions, subordinated CDS of financial reference entities have been separated from senior CDS in certain circumstances. 45. Where financial reference entity terms are applied to a CDS for which the relevant reference obligation is a senior obligation and a governmental intervention or restructuring credit event occurs in respect of subordinated debt, only the protection on the subordinated CDS will be triggered. For the protection on the senior CDS to be triggered, a governmental intervention or restructuring credit event would need to occur in respect of the senior debt unless subject to resolution. For all other credit events, the situation remains the same as under the 2003 ISDA definitions, with the protection under both senior and subordinated CDS being triggered. 46. We generally do not believe that an obligation default credit event is consistent with our definition of default, as it includes all technical defaults, such as interest coverage ratio violations. 47. Finally, the list of credit events may be more limited for small baskets (small groups of obligations). This difference in treatment is based on how timing of a default affects CDOs, CLNs, and single-name credit derivatives. For instance, a company may accelerate its debt due to a covenant violation. If obligation acceleration were to be deemed a credit event in a small basket CLN transaction or a single name CDS, the investor would automatically lose money at that moment. Credit events with respect to sovereign reference obligations 48. Credit events for transactions that include sovereign reference obligations are slightly different than corporates due to the specific nature of sovereign debt. 49. Failure to pay: As with corporate credits, failure to pay is the simplest and most direct credit event in the sovereign context. This credit event is consistent with what we consider to be a default as applied to sovereign entities. 50. Bankruptcy: The bankruptcy credit event has no meaning for a sovereign entity since sovereign entities are not subject to bankruptcy proceedings. Therefore, this credit event is typically not included. 51. Repudiation/moratorium: In both cases S&P; Global Ratings would generally consider repudiation and moratorium to be tantamount to a default. 52. Restructuring: Sovereign entities may trade on old restructuring, which includes provisions that may not be considered a sovereign default as per our criteria. This definition of restructuring does not preclude triggering of a restructuring credit event in case of default on lending agreements between two sovereign countries. This type of lending is often a de facto foreign aid package and is consequently subject to renegotiation with considerable frequency. If restructuring is included as a credit event for sovereign reference obligations, then we would be looking to see whether the documentation includes sovereign-to-sovereign restructuring, as this is not consistent with our rating definitions as they apply to sovereign entities. In some cases, restructuring events may be considered defaults if they reflect a distressed exchange. Additional considerations on restructuring 53. Over the years the credit derivative definitions have introduced three different conventions with respect to restructuring: Old restructuring (Old-R) Modified restructuring (Mod-R) Modified modified restructuring (Mod-Mod-R) 54. The Old-R restructuring convention includes events that are not necessarily considered a default. Changes in seniority (if such a change was due, for instance, to the provision of additional collateral), a change in currency (if it involved major world currencies), or a restructuring that occurs only between two consenting parties would not normally result in the lowering of the rating on a corporate entity to 'D' or 'SD', unless we are made aware of the restructuring event and are able to determine that it meets our definition of default, including our view on distressed exchange. If Old-R applies in a transaction, we may adjust our analysis to address the higher likelihood of default, which is generally expressed as an increased level of credit enhancement. Additionally, the settlement method related to an Old-R credit event is the same as for other credit events. 55. Unlike Old-R, Mod-R and Mod-Mod-R credit events limit the maturity of the deliverable obligations in the event of a buyer-triggered restructuring credit event. This is done in order to prevent the delivery of highly discounted long-dated nonrestructured bonds. Bilateral loans may not trigger the restructuring credit event and a deliverable obligation must be fully transferable or conditionally transferrable. Settlement Of Credit Events 56. This section provides further detail on what to consider when reviewing the settlement of credit events and deliverable obligations as outlined in paragraphs 13-19 of the criteria. Deliverable obligation categories and characteristics 57. The deliverable obligation characteristics typically include the following: Not subordinated--which means the obligation must not be subordinated to the most senior reference obligation. We would adjust the recoveries accordingly if the subordination is not specified. Assignable loans--loans that are capable of being assigned or novated without the consent of the relevant reference entity or guarantor. Specified currencies--any of the lawful currencies of Canada, Japan, Switzerland, the U.K., and the U.S., as well as the euro and any successor currencies. In our analysis we will review if deliverable currencies other than the currency of the vehicle can be delivered, in which case we will assess whether the transaction includes a hedge mechanism and/or whether the risk has been sized as part of the credit enhancement. In the case of physical settlement, we will haircut the recovery assumption to reflect the potential loss due to the currency conversion rate (see our foreign exchange risk criteria, referenced in the Related Publications section). Consent-required loans--loans that are capable of being assigned or novated with the consent of the relevant reference entity or guarantor. If this characteristic is applicable, we expect the documentation to also include that the consent to assign or transfer the loan has been obtained. Transferable--the deliverable obligation is to be transferable without any contractual, statutory, or regulatory restriction. Not a sovereign lender--any obligation not primarily owed to a sovereign or supranational organization (including Paris Club debt). Not domestic currency--any obligation that is not denominated in domestic currency. Not domestic law--any obligation that is not governed by the laws of the reference entity (if a sovereign) or those of its jurisdiction (if not a sovereign). Not domestic issuance--any obligation that is registered or qualified for sale outside the domestic market of the reference entity. Direct loan participations--a loan subject to a participation agreement where the buyer is capable of creating a contractual right in favor of the seller that provides the seller with recourse to the participation seller for a specified share in any payments due under the relevant loan, which are received by such participation seller. Maximum maturity longer than the tenor of the transaction. Not contingent--any obligation with an outstanding principal balance as of the delivery date that may not be reduced as the result of the occurrence or non-occurrence of an event or circumstance other than payment. Convertible, exchangeable, or accreting obligations usually satisfy these criteria provided that the right to convert/exchange/purchase/redeem the obligation has not been exercised on or before the delivery date. If contingent obligations can be delivered, the exposure to the contingency needs to be sized, either by adapting the recovery rates and/or through credit enhancement. 58. In case of financial institutions or sovereign debt, the 2014 ISDA definitions allow for the delivery of an asset package. Specifically, in case of a governmental intervention related to financial institution debt, the asset package that forms the deliverable obligation may constitute an asset that results through an exchange or conversion in consideration of prior deliverable obligations. 59. In the case of sovereign debt, the asset package that forms the deliverable obligation is based on one or more package observable bonds. A list of such bonds, selected by ISDA (or its designee) by reference to bonds that would generally satisfy the definitional standards for deliverable obligations in the context of sovereign CDS, will be publicly available at all times. Settlement mechanisms 60. Auction settlement: Generally, all standard CDS contracts now settle through an auction process once a credit event has triggered. If the auction is not held, contracts will generally settled based on other settlement methods described in the contract (physical settlement, for instance). 61. Once the determination committee has determined that a credit event has occurred and that one or more auctions will be held, the auction process will start. For credit events such as bankruptcy and failure to pay, this just involves the specification of the deliverable obligations and the date of the auction. For restructuring credit events, it is a bit more involved because there are different conventions and the maturity limitation on deliverables for buyer-triggered contracts requires the specification of auction maturity buckets. We believe that the auction process does not affect the swap's sizing of defaults and recoveries. 62. Physical settlement mechanism: In CDSs with physical settlement, the protection buyer will deliver an obligation of the defaulted reference entity to the protection seller. The protection seller will, in return, pay the full notional amount of the defaulted reference obligation to the protection buyer. As a result, the buyer is reimbursed for any default-related losses that it would otherwise suffer. Consequently, the protection seller will establish the recovery of the delivered obligation, either by selling the security or holding on to it for workout. 63. If physical settlement is chosen, a deliverable obligation category and characteristics need to be selected and the deliverable obligation must satisfy the deliverable obligation characteristics on the delivery date. 64. Cash settlement mechanism: In CDSs with cash settlement, the defaulted obligations are valued and the protection buyer is reimbursed for the loss between par value and the value of the obligation following default. There are several important elements in the cash settlement process as typically required by ISDA: Size of the bids. The quotation amount is typically the reference obligation notional amount. Nevertheless, the bids obtained must be based on the standard trading size of the reference obligations. As it becomes very difficult to obtain meaningful bids on large amounts, we typically look for a minimum quotation amount of $1 million and a maximum quotation amount of $15 million, as this could potentially influence the recoveries achieved. In certain transactions, the quotation amount is determined by putting together various obligations of various sizes in a valuation basket. S&P; Global Ratings will review these on a case-by-case basis. Typically, the quotation amount excludes accrued interest, which is typically added when establishing the final price. Identity of the bidders. The bidding entities must be actively involved in the market for the relevant reference obligation. S&P; Global Ratings typically requests that the names of the bidding entities be disclosed in the documentation. Number of bids. S&P; Global Ratings typically expects that a minimum of five bids be requested, of which three should be obtained. If three bids are not obtained, subsequent bidding rounds must be held until the expected number is achieved or the bidding guidelines are exhausted. Selection of bids. S&P; Global Ratings typically expects that the highest or average highest of the bids be taken. Reference Price And Loss Calculation 65. This section provides further detail on what to consider when reviewing the reference price and loss calculation as outlined in paragraphs 20-22 of the criteria. 66. Generally, a reference price of 100% of par is selected. If a lower or higher reference price is selected, we will seek an explanation as to why the SPE has entered into an off-market CDS. If a lower price is selected, the discount, which may be represented by a cash payment to the SPE, should be retained by the SPE as principal proceeds. 67. For transactions that follow cash settlement, the final price (expressed in a percentage) is the highest or average highest bid received, and the accrued interest, which is typically excluded from this bid, is added to this price. 68. S&P; Global Ratings will also review the party responsible for calculating the loss amount--usually the calculation agent or manager. In certain cases, we may also expect the loss amount to be reviewed by an independent party, such as an auditor. 69. The notes can be written down when a credit event notice is issued with the full notional amount of the reference obligation. In this case, the notes are subsequently restored to their original amount (minus losses) once the recovery value on the obligation has been established through the cash or physical settlement process. Alternatively, the notes can be written down after the loss amount has been established. S&P; Global Ratings also needs to review whether the notes are physically redeemed or if only the outstanding notional amount is reduced. REVISIONS AND UPDATES This article was originally published on Feb. 10, 2020. Changes introduced after original publication: On April 7, 2021, we republished this criteria article to make nonmaterial changes. We removed noncriteria text in the "Impact On Outstanding Ratings" and "Changes From Previous Criteria" sections, as well as language pertaining to the criteria's Request For Comment in "Key Publication Information," which was related to the initial publication. On Feb. 24, 2022, we republished this criteria article to make nonmaterial changes. We added an appendix to describe the specific application of the criteria to transactions referencing the credit derivative definitions published by ISDA, and we added a reference to this appendix in the article's "Overview And Scope" section. As announced in "Evolution Of The Methodologies Framework: Introducing Sector And Industry Variables Reports," published Oct. 1, 2021, we are phasing out guidance documents over time. As part of this process, we have archived "Guidance: Criteria For Transactions Referencing Credit Derivative Definitions And Documentation," published Feb. 10, 2020. The guidance content, now included in these criteria's appendix, was moved without any substantive changes. We also updated the "Related Publications" section and the contact information. On April 21, 2023, we republished this criteria article to make nonmaterial changes to update the "Related Publications" section. RELATED PUBLICATIONS Superseded Criteria Criteria For Rating Synthetic CDO Transactions: CDS Documentation, Sept. 1, 2004 Related Criteria Global Methodology And Assumptions For CLOs And Corporate CDOs, June 21, 2019 Foreign Exchange Risk In Structured Finance--Methodology And Assumptions, April 21, 2017 Counterparty Risk In Terminating Transactions, Aug. 15, 2014 Country

Risk Assessment Methodology And Assumptions, Nov. 19, 2013 Global Derivative Agreement Criteria, June 24, 2013 Principles Of Credit Ratings, Feb. 16, 2011 Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009 Related Research Evolution Of The Methodologies Framework: Introducing Sector And Industry Variables Reports, Oct. 1, 2021