Article Title: Criteria | Structured Finance | General: Counterparty Instrument Ratings Methodology And Assumptions Data: (EDITOR'S NOTE: —On May 31, 2022, we republished this criteria article to make nonmaterial changes. See the "Revisions And Updates" section for details.) 1. S&P; Global Ratings is publishing its methodology for assigning a rating type specific to the financial obligations that securitization special-purpose entities (here referred to as "issuers") enter into with banks or any other entity taking on the issuer's credit risk under a contract such as a swap or liquidity facility (here referred to as a "counterparty"). 2. The counterparty instrument rating (CIR) addresses an issuer's capacity to meet its financial obligations to a counterparty in a securitization transaction on an ultimate payment basis as funds become available, without regard to any specific repayment date that may be stated in the terms of the contract. The CIR is a rating type with its own ratings definitions (see "S&P; Global Ratings Definitions"). We denote it using the suffix 'cir' to distinguish it from "standard" issue credit ratings. 3. A CIR could apply to an interest rate swap, cross-currency swap, liquidity facility, or any other financial obligation that an issuer enters into with a counterparty that falls within the scope of these criteria. We consider that counterparty contracts are outside the scope of our standard issue credit ratings because payment obligations in securitization counterparty contracts are bilateral, with both parties having financial obligations to each other over the life of the transaction, while payments on a note debt obligation are unilateral. In addition, our CIR analysis addresses ultimate, but not timely, payment, while our issue credit rating analysis addresses both ultimate and timely payment. 4. Where a financial obligation to a counterparty has the same seniority in the priority of payments as a note that S&P; Global Ratings rates (here referred to as a "rated note"), we would likely assign a CIR no higher than the rating on the note. Where a financial obligation to a counterparty ranks higher in priority than a rated note, we may assign a CIR that is higher than the note rating, subject to further asset-specific analysis and a review of the structural features of the specific financial obligation. I. SCOPE OF THE CRITERIA 5. These criteria apply to the outstanding financial obligation that a special-purpose entity has to a specific counterparty as part of a new or existing securitization transaction (including a covered bond program) where we have assigned a long-term rating to the notes, or as otherwise outlined in paragraph 21. These criteria are global and apply to a wide range of sectors within securitization. Furthermore, we will assign a CIR only if we can analyze the assets underlying a transaction by applying our sector- or asset-specific criteria or criteria principles. 6. These criteria do not relate to, or in any way affect, our methodology for assessing the impact of counterparty risk on rating securitizations (see "Counterparty Risk Framework: Methodology And Assumptions," published on March 8, 2019, here referred to as "our counterparty risk criteria"). Where our counterparty risk criteria assesses the issuer's exposure to the credit risk of a counterparty (that is, the risk that a counterparty may not pay the issuer), the CIR methodology focuses on the exposure of a counterparty providing a swap or liquidity facility to the credit risk of the issuer (that is, the risk that the issuer might not pay the counterparty under that swap or liquidity facility). II. SUMMARY OF THE CRITERIA 7. The methodology cover the assignment of a specific type of rating, the counterparty instrument rating (CIR), that analyzes an issuer's capacity to meet its financial obligations to a counterparty in a securitization transaction on an ultimate payment basis, without regard to a specific repayment date that may be stated in the terms of the contract. Therefore, the CIR does not take into account timeliness of payment and only addresses the issuer's capacity to pay as funds become available. The CIR carries the suffix 'cir' to distinguish it from standard issue credit ratings (see "S&P; Global Ratings Definitions"). 8. Securitization transactions often include financial contracts under which third parties (counterparties), typically banks, commit to make payments to mitigate a transaction's exposure to various risks (for example, interest rate, currency, or liquidity risk). Under these contracts, the special-purpose entity (issuer) also frequently commits to make payments to the counterparty, either on an ongoing basis, such as making swap payments, or by a certain time, such as repaying a liquidity facility drawing (see chart 1). 9. The CIR enables more transparent analysis of the differences between counterparty contracts and note debt obligations. We view counterparty contracts as outside the scope of the issue credit rating because counterparty contracts consist of bilateral payment obligations between the issuer and the counterparty. This is different from an issuer's one-way obligation to repay noteholders under a note obligation. The CIR addresses only the issuer's ability to pay the counterparty under the financial contract and does not address the ability of the counterparty to pay the issuer. 10. The CIR analysis may also extend beyond a default on the senior notes. In such a scenario, the timing of repayment of the financial obligation may be uncertain. The CIR therefore addresses ultimate payment of the financial obligation as funds become available, without regard to a specific repayment date that may be stated in the documentation concerning the timing of payments. The assumption in the CIR analysis of ultimate payment, notwithstanding the contract payment date(s), contrasts with the issue credit rating analysis, which typically addresses the ability to make timely payments of interest and the ultimate payment of principal by the legal final maturity date of the notes (see "S&P; Global Ratings Definitions"). 11. The most common forms of counterparty contracts found in securitization transactions where the issuer has an obligation to pay are interest rate swaps, cross-currency swaps, and liquidity facilities. If we were to receive requests for CIRs on other types of counterparty contracts, we would use these criteria as a starting point for our analysis. Depending on the type of contract, we could supplement our CIR criteria with additional assumptions. 12. Each CIR is specific to a particular issuer's financial obligation under a specific counterparty contract in relation to a securitization transaction. For example, we could assign a CIR of 'AAcir' to Issuer ABC's obligations under the interest rate swap with Bank XYZ. The CIR may be either a public, private, or confidential rating. The CIR could be assigned with surveillance or could be point-in-time with no surveillance. Furthermore, the CIR may be a local or foreign currency rating, depending on the underlying structure. 13. In determining a CIR, we first apply the sector- or asset-specific analysis used to assess the credit risk of the underlying assets, payment structure, cash flow mechanics, and other relevant risks considered when assigning securitization ratings. For example, we could apply our criteria for rating commercial mortgage-backed securities (CMBS). These criteria supplement the sector- or asset-specific analysis by taking into account general features associated with all counterparty contracts (see section III) and structure-specific elements in swaps, liquidity facilities, and similar facilities (sections IV and V; see chart 2). 14. Section III explains the additional considerations that apply when assigning CIRs on all types of financial obligations to counterparties, organized according to our five key criteria principles: Credit quality of the securitized assets; Legal and regulatory risks; Payment structure and cash flow mechanics; Operational and administrative risks; and Counterparty risk. 15. Section IV focuses on structure-specific elements for swaps and Section V focuses on structure-specific elements for liquidity facilities. 16. Where a financial obligation to a counterparty has the same seniority in the payment waterfall as a rated note, we expect the CIR to be the same as the rating on the associated class of notes (the associated note) if we consider that the noteholders and the counterparty would be exposed to the same level of credit risk from the issuer. These criteria apply whether the associated note is the most senior outstanding note or not. 17. Where a financial obligation to a counterparty ranks senior in right of payment to a rated note (the associated note), the CIR may be higher than the rating on the most senior note outstanding, subject to the rating linkages outlined below. The rationale for the linkage of the CIR to the note rating is to reflect the risk of unforeseen events following the default of the senior note. Rating above the senior note rating is, however, unlikely to be a common outcome under the criteria. 18. Where a financial obligation to a counterparty ranks senior to the most senior note, and that note is rated 'CCC+' or above, we cap the CIR at six notches above the note rating for a liquidity facility; for a swap, the CIR can be no more than four notches above the note rating. This implies that when the most senior note is rated 'CCC+', the CIR cannot be investment grade for a liquidity facility--'BB+cir' is the highest CIR achievable. 19. Where a financial obligation to a counterparty ranks senior to the most senior note, and that note is rated 'CCC' or below, the CIR is not linked to the rating on the note. Instead, the CIR is capped at 'BB+cir' for a liquidity facility and 'BB-cir' for a swap. 20. The CIR linkage to the most senior outstanding note implies that the CIR may change following redemption of the most senior note. The assignment of the CIR therefore takes into account the issuer's capacity to meet its financial obligation on an ultimate payment basis in a stress scenario consistent with the CIR, as well as the credit stability analysis of the CIR obligation in benign to moderate stress conditions (see "S&P; Global Ratings Definitions"). Furthermore, the counterparty contract may rank senior to a rated note, but junior to another rated class. In such a scenario, the CIR on the financial obligation to the counterparty would be lower than the rating on the note that ranks just above the counterparty contract in the priority of payments. 21. Where S&P; Global Ratings does not rate the securitized notes, we can still assign a CIR, provided that we are able to conduct a full rating analysis on the underlying transaction. If we do not have sufficient information on the underlying structure for our analysis, we are not able to assign a CIR. 22. These criteria outline the additional analytical considerations required to assign a rating higher than the rating on the most senior note, including our analysis of the recovery prospects for the assets and the analysis following enforcement of the notes. In particular, where we assign a CIR that is above the rating on the senior notes, we assume that the issuer has defaulted on the senior notes and that timing for repayment on the financial obligation to the counterparty would be uncertain following a senior note enforcement event and the potential for any formal bankruptcy proceedings or informal out-of-court restructuring of the issuer. Assigning a CIR that is higher than the senior note rating is typically only possible in those asset classes for which we do recovery-based analysis (such as CMBS and certain operating company securitizations). 23. The CIR does not address the likelihood or the impact of a contractual default by the counterparty. For example, the CIR does not consider the likelihood that the issuer might make termination payments to the counterparty if the counterparty were to breach the counterparty contract, fail to pay, file for bankruptcy, or default in any other way and the issuer were to terminate the contract. In these cases, we would withdraw the CIR. 24. This paragraph has been deleted. 25. This paragraph has been deleted. 26. This paragraph has been deleted. III. METHODOLOGY AND ASSUMPTIONS 27. The criteria cover our methodology for assigning a specific rating type, the counterparty instrument rating (CIR), which focuses on the exposure of a counterparty (for example, a bank) to the credit risk of the special-purpose entity (issuer) in a securitization transaction. The CIR carries the suffix 'cir' to distinguish it from standard issue credit ratings (see "S&P; Global Ratings Definitions"). 28. The methodology starts from the same criteria we use to rate the securitized notes in the transaction. Those criteria may be specific to an asset class, market, or region. These criteria then supplement the sector- or asset-specific analysis by taking into account structure-specific and general features of counterparty contracts. This section outlines the additional considerations that apply to all types of financial obligations to a counterparty and is organized to reflect the broad principles outlined in "Principles Of Credit Ratings," published on Feb. 16, 2011. Section IV provides further structural considerations related to swaps, and Section V provides further structural considerations related to liquidity facilities. 29. The CIR addresses an issuer's capacity to meet its financial obligations to a counterparty on an ultimate payment basis, without regard to a specific repayment date that may be stated in the terms of the contract. Therefore, the CIR addresses the issuer's capacity to pay as funds become available and does not take into account timeliness of payment. The CIR may be a local or foreign currency rating, depending on the transaction structure. 30. The purpose of the analysis is to determine the CIR, based on where the financial obligation to the counterparty is situated in the priority of payments and other considerations, as outlined in sections III to V. For a financial obligation that ranks senior in right of payment to the most senior outstanding note, the analysis assumes that the issuer has defaulted on the senior notes. As a result, the timing for repayment may be uncertain--this is why we do not consider the timeliness of payment in the CIR. To ensure that the CIR is applied consistently, it likewise does not address repayment by a specific date for a financial obligation that has the same payment seniority as a rated note. 31. Following our analysis, we may determine that it is appropriate to assign a CIR on a financial obligation to a counterparty that is higher than the rating on the most senior note outstanding if the financial obligation ranks above the most senior notes in terms of priority of payment, and if other factors (outlined in sections III to V) support such a conclusion. Given the myriad of risks and uncertainties involved in a scenario in which the issuer has defaulted on the most senior notes, we believe that a CIR that is higher than the rating on the senior notes will be difficult to achieve in many instances. 32. Where S&P; Global Ratings does not rate the securitized notes, we can still assign a CIR, provided that we are able to conduct a full rating analysis on the underlying transaction. If we do not have sufficient information on the underlying structure for our analysis, we cannot assign a CIR. 33. Furthermore, the criteria limit the CIR to the rating on the most senior notes plus no more than six notches for liquidity facilities and four notches for swaps when the rating on the senior notes is 'CCC+' or higher. Where the most senior notes are rated 'CCC' or below, the CIR is not linked to the rating on the associated note rating and the maximum CIR is 'BB+cir' for a liquidity facility and 'BB-cir' for a swap. For example, for a liquidity facility, a CIR of 'BB+cir' is the highest rating achievable when the senior note rating is rated 'CCC+'; a CIR of 'AAAcir' is only possible if the senior note rating is 'A-' or higher. The rationale for the linkage of the CIR to the senior note rating is to reflect the risk of unforeseen events following the default of the most senior note. For example, there may be unforeseen costs and fees that would be due and payable before the financial obligation that the CIR is addressing. In addition, a senior note rated 'CCC' or below would be vulnerable to nonpayment. For such a note, these criteria limit the CIR for a liquidity facility to no higher than 'BB+cir', and to 'BB-cir' for a swap. 34. In certain scenarios, the counterparty contract may rank senior to a rated note, but junior to another rated class. In such a case, we would assign a CIR that is lower than the rating on the note that ranks just above the financial obligation to the counterparty. 35. Linking the CIR to the most senior outstanding note implies that the CIR may change when the most senior notes are redeemed because the CIR would then be linked to the next rated class of notes in the priority of payments. The assignment of the CIR therefore initially considers the issuer's capacity to meets its financial obligation on an ultimate payment basis in a stress scenario consistent with the CIR, as well as the credit stability analysis of the CIR obligation in benign to moderate stress conditions (see "S&P; Global Ratings Definitions"). If the financial obligation does not meet our credit stability criteria, the initial CIR may not exceed the most senior note rating (see Section V on liquidity facilities). If the issuer has redeemed all the notes in the transaction, we would expect it to have repaid the counterparty contract. If so, we would withdraw the CIR. 36. If the issuer defaults on the notes, we would remove the linkage of the CIR to the note rating and cap the CIR at the level it was at when the issuer default occurred (see paragraphs 33 to 35). The CIR may be lowered to reflect its creditworthiness in a note enforcement scenario. 37. The criteria consider multiple risk factors to determine the extent to which a CIR may exceed the rating on the associated note. These factors include: The type of financial obligation to a counterparty; The priority ranking of the financial obligation to a counterparty following a senior note enforcement; The jurisdiction where enforcement of the assets is likely to occur (see paragraphs 44 and 45) The types of obligations that are due to be paid before or at the same time as the counterparty to which the CIR relates (for example, swap termination payments); The potential effect of payments that would become due in a senior note enforcement scenario (see paragraphs 44 and 45) The potential effect of not receiving payments from counterparties in a senior note enforcement scenario (see paragraphs 49 and 50). 38. Here are some examples of how the notching analysis may limit the CIR: For a counterparty obligation that has the same seniority as the most senior outstanding note, the CIR is capped at the rating on that note because the counterparty and the senior noteholders would have the same rights in a senior note enforcement scenario. For a liquidity facility that ranks senior to the most senior outstanding note, the CIR could be up to six notches above the rating on that note because the issuer will pay its obligations to the liquidity facility provider first, and the calculation of the principal and interest payments should be well defined in the liquidity facility document. For a currency swap, fixed-to-floating interest rate swap, or basis swap that ranks senior to the most senior outstanding note, the CIR could be up to four notches above the rating on that note. Although the issuer may pay its obligations to the counterparty before the notes, we consider that sizing the obligation due to the swap counterparty (such as the termination amount) would be more complex and subject to more variability than the determination of amounts due on a liquidity facility. Therefore, the CIR related to these swaps would be linked more closely to the rating on the associated note. A. Credit Quality Of The Securitized Assets 39. The credit analysis for a financial obligation to a counterparty that has the same seniority as a rated note (senior or otherwise), as a starting point, uses the criteria for the asset class being securitized. However, where the financial obligation being rated ranks above the most senior rated notes, we assess the credit quality of the assets to determine their recovery prospects and, thus, whether the CIR could exceed the rating on the most senior notes. In this case, to assess the issuer's capacity to pay its financial obligation to the counterparty, the analysis considers the impact of a senior note default and the subsequent sale or liquidation of the assets. 40. To assign a CIR that is higher than the rating on the most senior note outstanding, the issuer's financial obligation to the counterparty would have to withstand a stress scenario that is more severe than the stress scenario that the senior notes were capable of withstanding. The applicable stress scenario for the CIR would take into consideration the rating linkage guidelines (see paragraphs 16 to 21 and 31 to 38) and our analysis of the impact of the sovereign rating (see paragraph 51). 41. For asset sectors that have specific recovery-based analysis (e.g., CMBS and certain operating company securitizations, such as residential health care securitizations), the recovery assumptions for a scenario following note enforcement are likely to be in line with stresses for a scenario prior to note enforcement because we consider that the default of the senior tranche of notes is unlikely to affect the assets' recovery value (see "European CMBS Methodology And Assumptions," published on Nov. 7, 2012). 42. For other asset classes that do not use a recovery analysis to rate the associated notes, further analytical development will likely be required to assess what credit stresses and valuation assumptions should be applied in scenarios following note enforcement. B. Legal And Regulatory Risks 43. The legal and regulatory analysis for a CIR on a financial obligation to a counterparty that has the same seniority as a rated note (senior or otherwise) uses the same criteria applied to rate the note. However, to assess a financial obligation to a counterparty that ranks above the most senior outstanding note and to determine whether the CIR could be higher than the rating on the most senior note, the analysis assumes that the issuer defaulted on the most senior notes and that an enforcement event has occurred. The analysis includes consideration of how this process will affect the issuer's ability to pay the counterparty. For example, we deduct estimates of the additional costs and expenses involved in enforcing the security backing the rated notes, as well as any other senior costs that rank ahead of the counterparty. We then assess whether the anticipated recoveries from the underlying assets after these deductions are sufficient at the applicable rating level for the issuer to pay its financial obligation to the counterparty. 44. In estimating the senior costs that are payable in an enforcement scenario, our assumptions are specific to the asset class and transaction. For example, in CMBS structures, we anticipate that senior costs (such as servicing fees) after the enforcement process begins are commensurate to before the enforcement. However, we may increase enforcement costs to reflect the additional expense involved in enforcing security when the issuer is insolvent. For example, we factor in fees payable to administrators, receivers, courts, and lawyers (see paragraphs 74 and 75 in "European CMBS Methodology And Assumptions," published on Nov. 7, 2012). The additional costs and the stresses we apply depend on a transaction's specific characteristics--for example, the jurisdiction in which enforcement would take place, whether the underlying property has characteristics that dictate additional costs, or where additional costs are anticipated. 45. In sizing the estimated costs after note enforcement under these criteria, we take into account transaction-specific provisions for fees, expenses, and indemnification before enforcement of the senior notes and how these are likely to be affected after note enforcement. It is likely that following note enforcement, a transaction would have fees, expenses, or indemnities that are neither capped nor subordinated to the issuer's obligation to pay the counterparty (for example, note enforcement often involves the appointment of an administrator or receiver, and there could also be lawyers or advisors involved, all of which are typically paid senior to any counterparties). The CIR analysis assesses the impact of the estimated senior amounts on the capacity of the issuer to pay its financial obligation to the counterparty. When assessing the amount of estimated additional fees and expenses, we consider the following factors and, in certain circumstances, we may request that transaction participants provide us with additional information to estimate likely fees, expenses, and costs: The potential for appointment of an administrator or receiver to enforce security, its likely services, and its likely length of service; The potential for ancillary costs (for example, lawyer and accountant costs); The market norms for fees and expenses in a given sector or country; Likely workout scenarios after issuer default, including (1) the sale of the portfolio under "fire sale" conditions, (2) a gradual, piecemeal sale of the portfolio, and (3) continuance on a going-concern basis, as well as the impact on the role of the administrator or receiver and other service providers; Current and future market conditions in the sector, including the availability of potential buyers of the portfolio and its impact on the selected work-out strategy; The quality of assets and its impact on the workout scenarios; Counterparty risk related to relevant counterparties and the potential impact on additional costs (see paragraphs 49 and 50); and Termination costs from the issuer to this and other counterparties. C. Payment Structure And Cash Flow Mechanics 46. This analysis focuses on the counterparty contract's payment structure and the transaction's cash flow mechanics. The CIR addresses our opinion regarding the ultimate payment of the financial obligation to a counterparty without regard to a specific repayment date that may be stated in the terms of the contract. For a financial obligation that has the same seniority as a rated note (senior or otherwise) or one that ranks above the most senior outstanding note, the CIR does not address timeliness of payment. In analyzing whether the CIR could be higher than the rating on the most senior note, we assume a senior note enforcement. Therefore, the issuer might not repay its financial obligation by a specific repayment date because both a formal bankruptcy proceeding or an informal out-of-court restructuring of the issuer could cause delays. The cash flow analysis for a CIR that is higher than the rating on the senior note applies recovery-based stresses and quantifies, as well as deducts, estimated senior costs after note enforcement from the anticipated liquidation proceeds of the assets (see paragraphs 43 to 45). 47. Even though the credit and cash flow analysis may indicate a higher rating, the rating linkage of the CIR to the note rating in paragraphs 16 to 21 and 31 to 38 applies when rating above the most senior note. D. Operational And Administrative Risks 48. The analysis of the operational and administrative risks consists of reviewing the key transaction parties and is the same for assigning a CIR as for assigning an issue credit rating. This analysis focuses on whether these parties are capable of managing a securitization over the life of the financial obligation (see "Global Criteria For Assessing Operational Risk In Structured Finance Transactions," published on Oct. 9, 2014). E. Counterparty Risk 49. The CIR analysis uses the same methodology to determine counterparty risk as is used to determine counterparty risk for the related securitized notes (see the counterparty risk criteria). However, the results often differ because the counterparty risk analysis for the CIR focuses on third parties whose creditworthiness affects payments on the financial obligation to which the CIR relates. For example, a swap counterparty is still likely to be exposed to bank account risk. 50. Just as counterparty risk constrains the rating on a senior note, counterparty risk constrains CIRs on financial obligations depending on their seniority and other factors. A securitization transaction may have multiple counterparties (as defined in the counterparty risk criteria) not connected to the counterparty providing the financial obligation covered by the CIR. If we think the failure of these counterparties will not impair the ability of the issuer to pay the financial obligation to a counterparty, then we can assign a CIR above the senior note rating, even where the rating on that note is constrained under our counterparty risk criteria. In particular, we consider whether the additional credit enhancement available to the counterparty to which the CIR relates is sufficient to absorb the risks constraining the senior note rating. F. Rating Above The Sovereign 51. The criteria for assigning ratings above the foreign currency rating on the sovereign in securitization transactions would apply when assigning a CIR (see "Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions," published on Jan. 30, 2019), as would any other sovereign-related criteria deemed applicable. For purposes of applying the aforementioned criteria for rating above the sovereign, the determination of the relevant country risk sensitivity being 'high' or 'moderate' (which, in turn, will determine the relevant number of potential notches above the sovereign) would correspond to the country risk sensitivity of the issuer (i.e., the assets backing the securitization or covered bond, and not the country risk sensitivity of the counterparty). IV. SPECIFIC APPLICATION: SWAP AGREEMENTS 52. This section describes the structure-specific criteria for assigning a CIR on an issuer's financial obligation to a swap counterparty. The CIR applies to interest rate swaps and cross-currency swaps. It also applies to other swap agreements that have features to which the criteria in this section pertain. A. What The CIR Includes And Excludes 53. The CIR on a swap addresses scheduled payments due to the swap counterparty. If the issuer defaulted on the contract, the CIR addresses any termination payments due to the swap counterparty, unless such termination arose from a contractual default by the counterparty. Our analysis of the scheduled swap payments takes into account the notional amount of the specific swap agreement. For example, the notional amount could reflect the outstanding amount of notes, a fixed amortization schedule, or a performing asset balance. 54. In assigning a CIR, our underlying assumption is that the swap counterparty remains capable of performing its obligations under the swap. Therefore, we do not factor any consequences of a contractual default by the counterparty into the CIR analysis. The CIR would instead be withdrawn if there was a contractual default by the swap counterparty. Furthermore, the CIR does not consider the effect of any nonmonetary events that may cause the swap to terminate (e.g., a breach of representation). These events would also lead to a withdrawal of the CIR. B. Priority Ranking 55. A swap's position in the priority of payment is likely to affect the CIR. Typically, cross-currency swaps have the same seniority as the most senior outstanding notes while interest rate swaps rank above the most senior outstanding notes. 56. Where a swap has the same seniority as a rated note (senior or otherwise), we generally expect the swap and the note to have the same creditworthiness, because an issue credit rating on a class of notes reflects the credit risk of the assets and any available credit enhancement and forms of support. Therefore, the CIR is typically the same as the note rating. 57. Where a swap ranks above the most senior rated note (typically basis swaps and fixed/floating swaps), the analysis to determine the CIR and whether it could be higher than the rating on the senior note consists of modeling swap termination payments upon an issuer default. The ability to assign a CIR that is higher than the senior note rating depends on our ability to develop appropriate assumptions that enable us to model these termination payments, as well as on other factors outlined in paragraphs 43 to 45. Depending on the swap structure, the number of unknowns may make assessment of risk difficult to quantify. In such cases, we typically assign a CIR that does not exceed the senior rating. 58. The rating linkage of the CIR to the note rating in paragraphs 16 to 21 and 31 to 38 applies when rating above the most senior note. V. METHODOLOGY AND ASSUMPTIONS: LIQUIDITY FACILITIES 59. This section describes the structure-specific criteria for assigning a CIR on an issuer's financial obligation to a liquidity facility provider. The criteria apply to liquidity facilities, as well as to financial instruments that operate in a similar manner. These facilities may support term securitizations or act as back-stop liquidity for asset-backed commercial paper (ABCP) programs. We generally expect CIRs on liquidity facilities to be limited to facilities that only address a shortfall in liquidity (pure liquidity), rather than cover other risks (see paragraphs 65 to 67). A. What The CIR Includes And Excludes 60. If we cannot determine when or how much would be drawn from a liquidity facility, we assume that the facility is fully drawn at the beginning of the transaction in our analysis and remains drawn, accruing interest, until the final payment date. 61. The analysis further considers the repayment provisions for indemnities and increased costs, and their position in the transaction's priority of payment. If these amounts are subordinated to the repayment of the principal and interest on the liquidity facility, the CIR excludes them from the analysis. However, if these amounts have the same seniority as the liquidity facility, or rank above it, the CIR likely will not exceed the senior note rating because of the difficulty in assessing the likelihood and magnitude of these amounts and the issuer's ability to pay them at the higher rating levels. B. Priority Ranking 62. A liquidity facility's position in the priority of payment is likely to affect the CIR. A liquidity facility may have the same seniority as the most senior notes, or may rank above them. Our rating analysis generally leads us to assign a CIR at the same level as the rating on the senior notes. Under certain circumstances, however, the CIR may exceed or be lower than the rating on the senior notes. For example, we would assign a lower CIR to a liquidity facility that addresses more than just a shortfall in liquidity (see paragraphs 65 to 67). 63. Where a liquidity facility has the same seniority as a rated note (senior or otherwise), we generally expect the facility and the note to have the same creditworthiness. Therefore, the CIR is typically the same as the note rating. 64. Where a liquidity facility ranks above the most senior rated notes, we may assign a CIR above the rating on the senior notes after considering the estimated liquidation proceeds of the underlying assets that secure the issuer's obligations. We would need to determine that they are sufficient to repay the liquidity facility after deducting estimated senior costs and expenses arising from note enforcement (see paragraphs 43 to 45). 65. We may assign a CIR on a liquidity facility that is lower than the rating on the senior notes in certain cases. We review each transaction structure and liquidity facility to determine what limiting factors apply. (The following list of examples is not exhaustive.) 66. For ABCP programs, the analysis considers if the liquidity facility covers other risks in addition to liquidity mismatches, such as true sale, commingling of funds, or dilution risk. Such additional risks could result in the CIR being lower than the rating on the senior note or result in us not assigning a CIR because our analysis of the senior notes relied on the liquidity facility to cover such risks. Generally, CIRs are typically only assigned to liquidity facilities that cover pure liquidity risk. 67. In a term securitization that has multiple classes of securities, the liquidity facility may rank senior to the most senior note, but could be used to repay junior notes once senior notes have been redeemed. In this scenario, the CIR considers credit stability analysis to assess the impact on the CIR following redemption of the most senior notes in both stressed and benign scenarios. If the financial obligation does not meet our credit stability criteria, then the CIR will typically not exceed the rating on the most senior note. 68. The rating linkage of the CIR to the note rating in paragraphs 16 to 21 and 31 to 38 applies when rating above the most senior note. 69. The CIR on a liquidity facility considers all other forms of support (such as programwide credit enhancement, swap agreements, etc.)

present in the securitization structure and how they affect the issuer's ability to repay the liquidity facility provider. The analysis also considers any swap counterparty risk, such as how payments due from an issuer may be affected if the liquidity facility is not denominated in the same currency as the issuer's obligations. VI. FREQUENTLY ASKED QUESTIONS Why are we using this rating type rather than our issue credit rating? 70. Given the differences between financial obligations to counterparties and debt obligations, we consider that it is necessary and useful to differentiate our ratings on these types of financial obligation. First, financial obligations to counterparties are bilateral obligations between the issuer and the counterparty, while payments on a note debt obligation are unilateral from the issuer to the noteholder. Second, the CIR addresses the capacity to make ultimate payment of the financial obligation as funds become available, without regard to a specific repayment date that may be stated in the terms of the contract. By contrast, our issue credit rating analysis addresses both ultimate and timely payment. Which entity is the "issuer"? Which entity is the "counterparty"? 71. The criteria address certain obligations within securitization transactions. A special-purpose entity engaging in a securitization is referred to as an "issuer." A bank or any other entity that takes the issuer's credit risk under a swap or liquidity facility is referred to as a "counterparty." The CIR only addresses "ultimate payment"--is it a credit rating? 72. The CIR is a credit rating. It addresses the issuer's capacity to pay its financial obligation to the counterparty, but not the timing of that payment. By contrast, an issue credit rating on a securitization typically addresses the capacity to make timely payments of interest and ultimate payment of principal by the legal final maturity of the notes. If a CIR is assigned to a financial obligation (for example, a swap or liquidity facility) that supports a current securitization transaction, would the existing issue credit ratings on the notes of the securitization be affected? 73. No, the assignment of a CIR would not affect any existing note ratings in a securitization transaction. The CIR relates to a specific obligation of the issuer to the counterparty that was previously not rated. How do these criteria relate to the counterparty risk criteria? 74. Where our counterparty risk criteria ("Counterparty Risk Framework: Methodology And Assumptions," published on March 8, 2019) assess the issuer's exposure to the credit risk of the counterparty (that is, the risk that a counterparty may not pay the issuer), the CIR criteria focus on the exposure of a counterparty providing a swap or liquidity facility to the credit risk of the issuer (that is, the risk that the issuer might not pay the counterparty under that swap or liquidity facility). How do the criteria treat the assignment of a CIR to a counterparty contract, where credit exposure of the underlying assets is related directly to the counterparty itself? 75. We will seek to avoid circularity in the logic of CIR ratings, specifically in situations where there is linkage between the issuer and the counterparty. For example, in a covered bond program, where the counterparty contract in question is provided by the program sponsor, and where investors in covered bonds have dual recourse to the financial institution behind the covered bond program (the covered bond issuer/sponsor) and to the assets in the cover pool, we would generally not envisage a CIR rating elevated above the covered bond note rating. What additional analysis is required when assigning a CIR compared with assigning a note rating? 76. The criteria for assigning a CIR to a financial obligation to a counterparty are largely based on the asset-specific analysis used to assign ratings to the associated notes. We supplement this analysis with analysis of general and structure-specific features of counterparty contracts. In particular, where a counterparty contract ranks senior to the most senior rated note, we could, in certain circumstances, assign a CIR higher than the note rating. We do not expect this to occur frequently under these criteria, however. Assigning a rating higher than the note rating involves determining if the anticipated liquidation proceeds of the underlying assets that secure the issuer's obligations are sufficient to repay the counterparty after deducting estimated senior costs and expenses arising from note enforcement. 77. We generally do not consider scenarios after a note enforcement event when assigning note ratings within securitization transactions; such scenarios generally apply only to the CIR analysis. In certain circumstances, we may request that transaction participants provide us with additional information to enable us to estimate likely fees, expenses, and costs arising from a note enforcement scenario. What is the likelihood that a CIR is above the rating on the senior notes? 78. CIRs are generally not above the rating on the most senior note. The financial obligation has to rank senior to the senior note in the payment waterfall and we need to perform the appropriate asset-specific recovery analysis to determine the likelihood of payment after an issuer default. Generally, this limits such ratings to sectors like CMBS and operating company securitizations, such as residential health care, where we have developed appropriate recovery-based criteria. Where appropriate asset-specific analysis does not yet exist, further criteria may need to be developed before a CIR could be assigned that is higher than the senior note rating. Is it possible to request a CIR if the notes are not rated? 79. Yes, even if S&P; Global Ratings does not rate the securitized notes, we could still assign a CIR, provided that we conduct a full rating analysis on the underlying transaction. This would include having access to the deal documentation and asset performance information. If we do not have sufficient information on the underlying structure for our analysis, we cannot assign a CIR. Can S&P; Global Ratings assign a CIR in any asset sector? 80. The scope of the CIR is global securitization transactions and covered bonds. Is the CIR limited to only swaps and liquidity facilities? 81. No, other issuer financial obligations to counterparties can be rated by applying the general methodology and assumptions outlined in the criteria. However, as swaps and liquidity facilities are the most common forms of counterparty contracts, the criteria provide further information on these obligation types. Why is the CIR not linked to the counterparty rating? 82. The CIR is designed to provide a specific counterparty with an opinion of an issuer's capacity to meet its financial obligations to that counterparty in a securitization transaction. The CIR does not incorporate any risks that may arise from the counterparty itself. Thus, the CIR expressly excludes any swap termination payments following a counterparty's contractual default under the swap, and the criteria do not link the CIR to the counterparty rating. Why is the CIR linked to the senior note rating? How was the six-notch uplift determined? 83. The linkage approach in the criteria--no more than six notches for liquidity facilities and four notches for swaps when the rating on the senior notes are 'CCC+' or higher--reflects the risk of unforeseen events following the default of the most senior note. A CIR of 'BB+cir' is the highest rating achievable when the senior note is rated 'CCC+'. We consider that a senior note rated 'CCC' or below is vulnerable to nonpayment and, therefore, the CIR is limited to no higher than 'BB+cir' (i.e., a speculative-grade rating). 84. The criteria do not link the CIR to senior notes rated 'CCC' or below. Instead, the maximum CIR is 'BB+cir' for a liquidity facility and 'BB-cir' for a swap. 85. In certain scenarios, the counterparty contract may rank senior to a rated note, but junior to another rated class. In such a case, we assign a CIR that is lower than the rating on the note that ranks just above the financial obligation to the counterparty. Why is the suffix 'cir' used? 86. We denote the CIR by the suffix 'cir' to distinguish it from ratings on securitized notes. 87. The CIR excludes certain termination payments (for example, those following a counterparty contractual default) and the CIR is withdrawn following a counterparty contractual default. The CIR does not address the timeliness of repayment on the financial obligation, even though the contract terms may indicate a specific repayment date. 88. We have highlighted these qualifications and exclusions in the criteria. Does the CIR carry the 'sf' identifier? 89. We will assign the 'sf' identifier where necessary. Generally, a CIR will carry an 'sf' identifier where the related securitization transaction falls within the definition of "structured finance" under EU regulation and ratings on the securitization transaction also carry the 'sf' identifier. The 'sf' identifier is assigned to certain issues and issuers to distinguish instruments or obligors considered by regulation to be structured finance instruments or obligors from any other instrument or obligor. APPENDICES APPENDIX A: RATINGS DEFINITIONS FOR COUNTERPARTY INSTRUMENT RATINGS [This appendix has been deleted. The definitions for counterparty instrument ratings can be found in "S&P; Global Ratings Definitions."] 90. This paragraph has been deleted. 91. This paragraph has been deleted. 92. This paragraph has been deleted. 93. This paragraph has been deleted. [Table 1 has been deleted.] APPENDIX B: COMPARISON OF CIRs TO CORPORATE ISSUE CREDIT RATINGS THAT INCLUDE RECOVERY 94. Readers may compare these criteria to those governing our corporate recovery ratings (see "Recovery Rating Criteria For Speculative-Grade Corporate Issuers," published Dec. 7, 2016) given that the CIR analysis may extend beyond a default on the senior notes. Therefore, the CIR addresses ultimate payment of the financial obligation as funds become available, without regard to a specific repayment date that may be stated in the documentation concerning the timing of payments. The corporate recovery ratings criteria limit the issue credit rating on loans and bonds of companies rated 'BB+' and below to three notches above the corporate's issuer credit rating (two notches for companies in the 'BBB' category in industry sectors such as utilities, where we may assign recovery ratings on debt rated 'BBB-' or above--see "Collateral Coverage And Issue Notching Rules For ‘1+’ And ‘1’ Recovery Ratings On Senior Bonds Secured By Utility Real Property," Feb. 14, 2013). Due to structural variances and differing bankruptcy implications of tiered debt within securitizations, along with typically differing payment mechanisms, the corporate recovery approach is not directly relevant to CIRs. Table 2 shows a comparison of CIRs to corporate issue credit ratings that reflect recovery. Table 2 Differences Between CIRs And Those Corporate Issue Credit Ratings That Reflect Recovery CIRS CORPORATE ISSUE CREDIT RATINGS THAT REFLECT RECOVERY Analytical definition Assessment of a structured finance issuer's capacity and ability to pay interest and principal on a counterparty contract on an ultimate payment basis, without regard to contract terms which may state a specific repayment date An issue credit rating on a corporate debt instrument may include expected recovery of estimated principal plus accrued, but unpaid, interest in the event of a payment default of a specific issue Bankruptcy assumption of issuer Senior note default does not necessarily mean issuer bankruptcy or counterparty contractual default Assumption of a formal bankruptcy proceeding or an informal out-of-court restructuring of the corporate obligor Default of obligation Counterparty contract may not be in default if it has a higher priority ranking than the senior notes Recovery assumptions based on valuing the company following default and distributing that value to claimants that we identify based on the relative priority of each claimant Payment mechanism Enforcement of collateral and distribution of proceeds through the post-enforcement waterfall Lender recoveries could be in form of cash, debt, or equity securities of a reorganized entity, or some combination thereof Timeliness CIR does not take into account timeliness, and default only occurs if the obligation cannot be paid in full once all funds are made available Issue credit rating takes into account timeliness, as well as recovery expectations Rating linkage CIR may be up to six notches higher than the most senior note rating Issue credit rating may be up to three notches higher than the issuer credit rating Rating definition type CIR is a special-purpose rating Recovery rating is a special-purpose rating; issue credit rating is a general purpose rating Symbology Upper case symbology with suffix identifiers (e.g., 'Acir') Recovery rating scale '1+' to '6' is used as an input to assign an issue credit rating for speculative-grade corporates; issue credit rating uses issue credit rating symbology Suffix identifier CIR is modified by a suffix identifier for the CIR (e.g., 'Acir'). In addition, we may apply the structured finance identifier where we determine appropriate (e.g., 'Acir (sf)'), although the structured finance identifier typically is not used. Recovery rating and issue credit rating have no suffix identifiers REVISIONS AND UPDATES This article was originally published on May 3, 2016. Changes introduced after original publication: Following our periodic review completed on April 26, 2017, we removed obsolete text pertaining to the initial publication of the criteria and updated the list of related criteria, as well as the list of authors. Following our periodic review completed on April 23, 2018, we updated the contact information and criteria references. On June 12, 2019, we republished this criteria article to make nonmaterial changes. We updated references to related criteria articles and removed Appendix A, which contained definitions for counterparty instrument ratings. These definitions can be found in "S&P; Global Ratings Definitions." On May 28, 2020, we republished this criteria article to make nonmaterial changes. We updated references to related criteria articles and removed information in paragraph 1 that related to the initial publication of these criteria. On May 13, 2021, we republished this criteria article to make nonmaterial changes to update criteria references. On May 27, 2021, we republished this criteria article to make nonmaterial changes to update criteria references. On May 31, 2022, we republished this criteria article to make nonmaterial changes to update contact information. RELATED CRITERIA AND RESEARCH Related Criteria Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019 Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019 Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016 Global Criteria For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014 European CMBS Methodology And Assumptions, Nov. 7, 2012 Principles Of Credit Ratings, Feb. 16, 2011 Related Research S&P; Global Ratings Definitions, Nov. 10, 2021