

Article Title: ARCHIVE | General Criteria: Credit Policy Update: Criteria On Use Of CreditWatch And Outlooks Clarified Data: (EDITOR'S NOTE: —This article has been superseded by "Use Of CreditWatch And Outlooks," published Sept. 14, 2009.) In its ongoing efforts to increase the clarity of its ratings methodology and criteria, Standard & Poor's Ratings Services is providing this updated information to the marketplace with respect to its use of CreditWatch and outlooks. Standard & Poor's has long used outlooks and CreditWatch to provide credit-market participants with early warnings of potential rating changes. The effectiveness of outlooks and CreditWatch to signal changes in creditworthiness has been well documented (see "CreditWatch and Ratings Outlooks: Valuable Predictors of Ratings Behavior," published May 26, 2005, on RatingsDirect). Standard & Poor's is providing this update to make our use of outlooks and CreditWatch more transparent and to provide the marketplace with a better understanding of how and when we use these rating indicators. Key updates of our outlook and CreditWatch policies and practices include: Standard & Poor's places ratings on CreditWatch when an event or deviation from an expected trend has occurred or is expected, causing an analytic assessment that there is at least a one-in-two likelihood of a rating change in the near term, usually within 90 days. Standard & Poor's assigns positive or negative outlooks to long-term issuer ratings when our analysts believe that an event or trend has less-certain implications for a rating change than CreditWatch. This may be viewed to correspond with at least a one-in-three likelihood of a rating action over the intermediate term (generally up to two years). Standard & Poor's published analysis of an issuer with ratings on CreditWatch or with a positive or negative long-term rating outlook includes a bi-directional statement. This statement discusses what conditions will cause a rating to change as well as the conditions under which the current rating would be affirmed or assigned a stable outlook. Within its published analyses, wherever possible, Standard & Poor's also discusses the likely range of rating outcomes for ratings on CreditWatch as well as the timeframe within which a rating change may occur for ratings on CreditWatch or with a positive or negative outlook. Normally, in situations where ratings remain on CreditWatch for more than 90 days—such as for mergers and acquisitions or when there are material events or deviations from trends—Standard & Poor's will publish interim updates to identify its most current assessment of the situation. Background Outlooks and CreditWatch are used early in a changing credit situation when a rating change is not yet certain. Although most rating changes are preceded by an outlook revision or a CreditWatch placement, changes can and should occur even when the outlook is stable or the rating is not on CreditWatch but when an abrupt change in the creditworthiness can be assessed immediately. Standard & Poor's priority is always to get the rating right as quickly as possible, even if a rating change is not signaled in advance because of unanticipated circumstances. A Standard & Poor's credit rating opines on the relative creditworthiness of an obligor over the life of a debt issue, often measured by the likelihood of default. The rating incorporates an assessment of future events to the extent they can be anticipated. However, Standard & Poor's also recognizes the potential for future performance to differ from initial expectations. Outlooks and CreditWatch listings address this possibility by focusing on the scenarios that could result in a rating change. CreditWatch Ratings may be placed on CreditWatch when an event or deviation from an expected trend has occurred or is expected, when this event or deviation increases the probability of a rating action, and when additional information is necessary to take a rating action. For example, an issue typically is placed under such surveillance as the result of a merger, recapitalization, regulatory action, or unanticipated operating development. Such rating reviews are completed as soon as Standard & Poor's has received the necessary information—normally within 90 days—unless the outcome of a specific event is pending. In situations where ratings remain on CreditWatch for more than 90 days (e.g., for mergers and acquisitions) or when material events or deviations from trends occur, Standard & Poor's will publish interim updates to identify its most current assessment of the situation. CreditWatch designations may be positive, which indicates a rating may be raised, or negative, which indicates a rating may be lowered. (A developing designation is used for unusual situations in which future events are so unclear that the rating could be raised or lowered, such as when a company discloses it is in merger discussions with multiple suitors.) It bears emphasizing that a CreditWatch listing does not imply that any potential change would be only one notch; it could be one notch or several notches, depending on the situation. The guidance given to analysts as to when to use CreditWatch is that the likelihood of rating action within the next 90 days must be substantial, but

additional information is still needed to make a rating decision. Standard & Poor's will place a rating on CreditWatch if it is determined that there is at least a one-in-two likelihood of a rating change within 90 days. From time to time, there may be events that present such significant uncertainty to an issuer's creditworthiness that a rating is placed on CreditWatch without the need to assess this threshold of potential change. Standard & Poor's also places ratings on CreditWatch when a deviation from an expected trend has occurred or is likely to occur, and Standard & Poor's believes that, as a result, there is at least a one-in-two likelihood of a rating change within the next 90 days. An example of this application of CreditWatch would be where an issuer has announced further deterioration in financial performance, continuing a trend, but further information is needed before a rating assessment can be made. This update to our CreditWatch policy will increase the progression of ratings moving from a positive or negative outlook to CreditWatch. However, investors should not expect this progression in every case because discontinuous or unexpected events can occur as an issuer's financial condition evolves or as market conditions change. A CreditWatch listing does not mean a rating change is inevitable. A CreditWatch listing also does not provide any insight into the magnitude of the potential rating change, which could be more than one notch. When a rating change is certain but the magnitude of change is not, the rating will be moved to what Standard & Poor's considers the level that represents the then-current opinion, based on the information available, and placed on CreditWatch for further surveillance. Wherever possible, the range of alternative ratings that could result is included in the CreditWatch announcement and any interim publications. It is important to reiterate that rating changes can occur without the issues appearing beforehand on CreditWatch. Whenever possible, Standard & Poor's communicates with an issuer in advance of making a decision to place a rating on CreditWatch. However, once a decision has been made, an issuer cannot appeal a CreditWatch listing. Outlooks Similar to CreditWatch, an outlook assesses potential for change and the likely direction of the rating over the intermediate term. In contrast to CreditWatch, an outlook is assigned as an ongoing component of all long-term ratings, where appropriate. Outlooks have a longer time horizon than CreditWatch listings and incorporate trends or risks with less-certain implications for credit quality. The time frame for an outlook generally is up to two years. In rare cases, where the outlook may refer to a longer time frame, Standard & Poor's will explicitly state so in its published analyses. Although Standard & Poor's ratings are based on an opinion of the most likely scenario for an issuer's future performance, the outlook addresses what direction we believe the rating may take if our most likely scenario does not hold. A separate section of all Standard & Poor's full and summary analyses—titled "Outlook"—outlines the potential for these scenarios. A positive outlook indicates a rating may be raised, and a negative outlook indicates a rating may be lowered. A stable outlook is assigned when ratings are not likely to be changed. Outlooks should not be confused with expected stability of the issuer's financial or economic performance. Even though Standard & Poor's assigns positive or negative outlooks to issuer ratings when our analysts believe that an event or trend has less-certain implications for rating change than CreditWatch, the potential for change must be realistic and not remote (within a two-year time horizon). Standard & Poor's assigns positive or negative outlooks to issuer ratings when our analysts believe that an event or trend has at least a one-in-three likelihood of causing a rating action over the intermediate term (generally up to two years). For example, a company with rapidly improving earnings and cash flow might still have a stable outlook if Standard & Poor's doubts the sustainability of the trend and thus views an eventual upgrade as unlikely. Occasionally, Standard & Poor's may assign a developing outlook to an issuer when a rating may be raised or lowered over the intermediate term. A positive or negative outlook is not necessarily a precursor of a rating change or a CreditWatch listing. Conversely, rating changes can occur when the issuer has a stable outlook. A stable outlook should not be interpreted as signaling the rating will remain unchanged for any period. Unanticipated events occur, and ratings can be reassessed at any time. If warranted, the rating itself would be changed to reflect the most current opinion of credit quality, and Standard & Poor's would not delay such a change by first revising the outlook or placing ratings on CreditWatch merely to signal a potential change. Communications Policy For CreditWatch And Outlook Listings When publishing a CreditWatch or outlook listing, Standard & Poor's intent is to communicate clearly the nature of the potential change, its timing, and the likelihood of change, including the potential for no change to an existing rating. Often, this can be accomplished through the use of a bi-directional

commentary. For issuers or issues assigned a positive, negative, or developing outlook, where possible, Standard & Poor's discusses what events are likely to change a rating and the timeframe for that the rating change. Standard & Poor's also discusses the conditions under which the current rating would be assigned a stable outlook. For issuers or issues assigned a stable outlook, Standard & Poor's discusses the expectations underlying the current rating. If possible, Standard & Poor's will discuss the conditions that could cause positive or negative rating actions, particularly in more volatile sectors. If it is highly unlikely that a rating would be raised or lowered over the intermediate term, Standard & Poor's includes those views in the outlook. If possible, Standard & Poor's will indicate the identifiable likelihood of rating changes for both positive and negative outlooks. Standard & Poor's published analysis of an issuer with ratings on CreditWatch is also bi-directional. For issuers or issues with ratings on CreditWatch, Standard & Poor's will include similar commentary. Standard & Poor's will discuss the conditions under which the current rating would be affirmed as well. If possible, Standard & Poor's will use qualitative language indicating the identifiable likelihood of rating changes for positive, negative, and developing CreditWatches. Consistent with its previously published research, Standard & Poor's will periodically report on the performance of CreditWatch and outlook designations. Frequently Asked Questions Why is Standard & Poor's updating and communicating its CreditWatch and outlook policy at this time? Standard & Poor's intent is to make its use of outlooks and CreditWatch more transparent. Through our discussions with investors, we determined that we could further clarify these early-warning indicators of potential ratings changes. This article describes in greater detail the use of CreditWatch for performance trends in addition to events, quantifying the likelihood of a rating change for the use of CreditWatch and outlooks and communicating clearly the nature of the potential change, its timing, and the likelihood of change for those ratings on CreditWatch or with positive or negative outlooks. What is changed and what implications is this intended to have? Standard & Poor's expects that the use of CreditWatch will increase modestly as it is consistently applied to situations where a deviation from an expected trend—as opposed to an event—increases the likelihood of ratings change in the short term. Actual usage of CreditWatch and outlooks will continue to vary somewhat by broad sector, depending on the relative stability of creditworthiness and the relative availability of timely and complete information. Standard & Poor's will continue to monitor and publicly report on the performance of CreditWatch and outlooks in its research. Guidance to market participants will be enhanced through the increased use of a bi-directional statement covering what conditions will cause a rating to change as well as the conditions under which the current rating would be affirmed. What is the difference between an outlook and CreditWatch? Ratings are placed on CreditWatch when an unanticipated event or deviation from an expected trend has occurred and we believe we need additional information prior to making a rating change, if any. CreditWatch status generally lasts for up to 90 days, though it can last longer when an event is still pending or more information is still required. In contrast, if applicable, long-term issuer credit ratings always carry outlooks (unless the ratings are on CreditWatch). Furthermore, outlooks cover a longer time period—generally up to two years—and can incorporate trends or risks with less-certain implications for credit quality than CreditWatch. They present Standard & Poor's opinion of possible changes to a company's credit quality over this longer time period, not specific near-term events. An issuer placed on CreditWatch does not carry an outlook during the CreditWatch review period. Does a negative outlook mean Standard & Poor's looks on the issuer itself unfavorably? No. A negative outlook refers to the long-term rating the issuer currently is assigned. It indicates Standard & Poor's view that the rating could be downgraded if the scenario upon which the rating is based does not transpire. A very highly rated issuer may have a negative outlook associated with the assigned rating, while an issuer with a rating deep in the speculative-grade category may have a positive outlook. Do companies within a given industry peer group generally have the same rating outlooks? Not necessarily. An outlook pertains to the rating on a specific issuer. Occasionally, however, most or all companies in a peer group may share the same outlook or CreditWatch status because of a possible change in business conditions that would affect that entire peer group. Do entities within a given country generally have the same rating outlooks? No, a rating outlook reflects the trends and risks affecting the long-term rating prospects of a specific issuer. However, in instances in which nonsovereign ratings are constrained by the probability of the sovereign restricting access to foreign exchange needed for debt service, nonsovereign rating outlooks (in some cases like the ratings

themselves) are more likely to be the same as the sovereign outlook. Also, if an entity is dependent on a sovereign for intergovernmental transfers, for subsidies, for a monopoly position, or for any other factors affecting operating and financial performance, outlooks may be linked, particularly if the nonsovereign and sovereign ratings are the same. Does Standard & Poor's always place ratings on CreditWatch prior to a rating change? No. Provided Standard & Poor's believes it is in full possession of all necessary information, we will make a rating change immediately. Indeed, Standard & Poor's believes it would be doing a disservice to the investment community if it delayed a rating change by needlessly placing ratings on CreditWatch. Is an upgrade or downgrade always preceded by a positive or negative outlook? No. Outlooks speak to the potential directional change of the rating, and in practice, rating changes most often occur in the direction indicated by the outlook. However, this would not be expected if the rating change was due to an unanticipated event. Under what circumstances does Standard & Poor's change a rating and place the revised rating on CreditWatch pending a further review? Standard & Poor's does this when an event or situation may result in further change in the rating over the very short term but Standard & Poor's still needs more information to make that determination. Similarly, a rating may be lowered and assigned a negative outlook rather than a stable one, or it may be raised and assigned a positive outlook. On the other hand, it is extremely rare for a rating to be lowered and assigned a positive outlook, or raised and assigned a negative outlook, though it is not impossible. Does every surprising development with an issuer that warrants further investigation result in a CreditWatch placement? Not every situation involving information uncertainty leads to a CreditWatch. As with most aspects of sound credit analysis, judgment is required. To the extent that analysts identify credits where there is a significant chance (at least a one-in-two likelihood) of rating action over this near-term time horizon but additional information is still needed to make a rating decision, then the rating should be put on CreditWatch.