Article Title: ARCHIVE | Criteria | Corporates | General: Unregulated Issuers' Hybrid Instruments: Rating Methodology And Assessment Of Equity Content Data: (EDITOR'S NOTE: — This criteria article was originally published on March 17, 2011. We are republishing this article following our periodic review, completed on Jan. 27, 2012. ,This criteria article has been superseded by the criteria article, "Methodology And Assumptions: Assigning Equity Content To Corporate Entity And North American Insurance Holding Company Hybrid Capital Instruments," published April 1, 2013.) 1. Standard & Poor's Ratings Services is refining and adapting its methodology for assigning ratings to hybrid instruments issued by entities in unregulated sectors and for classifying the equity content of these instruments. SCOPE OF THE CRITERIA 2. These criteria apply globally to all corporate entities and North American insurance holding companies that issue hybrid instruments, except for leveraged buyout companies (LBOs). SUMMARY OF CRITERIA UPDATE 3. This article amends and partly supersedes "Hybrid Capital Handbook: September 2008 Edition" (hereinafter referred to as "Hybrid Handbook"), published Sept. 15, 2008. 4. The criteria update provides additional clarification on: Instruments with step-up clauses exceeding 25 basis points, which we consider to be inconsistent with our "high" equity content classification; Instruments with carve-outs to obligations under replacement capital covenants, which we consider to be consistent with our "intermediate" equity content classification; and Our assigning of issue ratings to hybrid instruments issued by subsidiaries and issuers we consider to be government-related entities (GREs), based on our assessments of the issuing entity's stand-alone credit profile rather than on the issuer credit rating (ICR). IMPACT ON OUTSTANDING RATINGS 5. We do not expect to change any issue ratings on outstanding hybrid instruments nor any existing issuers' ICRs. 6. The equity content classification we attribute to outstanding hybrid instruments will continue unchanged unless we are uncertain about the issuer's intent regarding the permanence of these instruments and its financial policy on the instruments. The criteria amendments in the Methodology section below address how we view the intent of issuers regarding the permanence or refinancing of hybrid instruments and do not apply retroactively. EFFECTIVE DATE AND TRANSITION 7. These criteria are effective immediately. METHODOLOGY 8. This section outlines our methodology, applicable globally, for assigning ratings to and classifying equity content of hybrid instruments issued by entities in unregulated sectors, namely corporations worldwide and North American insurance holding companies, except for LBOs. (For LBOs, see section "Corporate methodology: Leveraged buy-out equity hybrids: Too good to be true," in our Hybrid Handbook). 9. We classify qualifying hybrid instruments into three categories, based on our assessment of their equity content: "high," "intermediate," and "minimal." (See section on "Equity Content Categories" in our Hybrid Handbook for a broader discussion of these criteria). 10. We address below hybrid instruments with equity features--other than mandatory conversion into common shares--that we potentially qualify as having "high" equity content. Instruments with mandatory deferrals based on a set trigger, with the trigger (even if not linked to the rating) set within three notches of the issuer's ICR. However, an investment-grade issuer might be under pressure for reputational reasons to redeem or recall an instrument to avoid deferring on the coupon. We would then assess the permanence of the instrument as insufficient if its trigger was set at a level where the company could still be investment grade. Consequently, we do not consider the equity content as "high" for issues of entities rated 'A-' or above based on a mandatory deferral feature. Instruments with mandatory deferrals that, if linked to a reduction in common dividends, are linked to a decrease from the most recent peak in common dividends, rather than to the common dividend level at the time of issuance. In this way, deferrals account for potential dividend increases between the issue date of the securities and the point of deferral. Instruments for which no more than approximately six months elapse between the start of the issuer's credit deterioration and effective payment deferral. This is especially relevant for instruments that pay annually, where the cash flow or other deferral trigger is calculated on a trailing 12 month basis, meaning that the trigger may be a lagging indicator of stress. For purposes of comparison, a quarterly-paying instrument, or an instrument with a six-month test period or a deferral at the first payment date following a downgrade of the issuer, might be more likely to qualify for "high" equity content. Instruments with common-dividend stoppers, but only if the trigger is likely to be applied when the issuer's ICR is 'B+' or lower. We believe that otherwise issuers would have a significant incentive to repurchase the hybrid instrument, because shareholders might still expect some distributions. Our "high" equity content disqualification also applies to dividend stoppers that allow paying a common dividend in scrip or refer to the intention of the issuer's board to recommend nonpayment of a dividend at the annual general meeting in the wake of a hybrid deferral. For subsidiary and GRE issuers with common dividend stoppers that could trigger when the ICRs exceeded 'B+', the "high" classification may still apply if we believe the controlling parent or government would be comfortable with the stopper. Instruments with material step-up clauses (that is, exceeding 25 basis points) are inconsistent with our classification of "high" equity content, even in cases when the issuer enters in to a replacement capital covenant (RCC) or an equivalent agreement. 11. Below we address hybrid instruments with a 26-100 basis point step-up clause and equity features that potentially qualify for our "intermediate" equity content classification. To consider an instrument's equity content as "intermediate," the conditions below would need to be met for us to see permanence as sufficient despite the step-up and the potential associated call option from the fifth anniversary of issuance. (See the section "Issue Features: Replacement Capital Covenants," in our Hybrid Handbook). An RCC is in force, from issuance, or as soon thereafter as is practical. RCCs that come into effect only years later may represent an incentive for redemption ahead of the date when the RCC would become effective. Call options or carve-outs, if any, to the obligations under the RCC that relate to accounting or corporate income tax changes, provided there is no reasonable basis for questioning the longevity of the applicable Generally Accepted Accounting Principles (GAAP) or tax regime involved. However, they remain weaknesses which in conjunction with other weak features, could mean that we would not qualify an instrument as having "intermediate" equity content. We would only qualify "tax-change" based carve-outs as consistent with "intermediate" equity content when they exclusively refer to the deductibility of distributions for income-tax purposes. Conversely, less material tax changes such as those relating to duties or withholding taxes would generally disqualify the instrument from being consistent with "intermediate" equity content, if these are included in the RCC carve-outs. Carve-outs, if any, to the RCC that allow the issuer to repurchase the hybrid equity securities without replacement are limited to 10% of principal annually and 25% over 10 years. Analogous carve-outs that allow a squeeze-out offer are limited to 20% of principal. In all cases where we qualify an instrument's equity content as "intermediate," an RCC must cover the repurchased amounts that exceed these percentages. 12. We address below how we rate hybrid instruments of issuers that benefit from external support, for instance when the issuer is a GRE or subsidiary. (See section "Rating The Issue: Government Support," in our Hybrid Handbook.) We generally notch down from the issuer's stand-alone credit profile (SACP), in instances when we have made an SACP assessment, rather than from the ICR, to reflect deferral risk and subordination. An exception to this would be when we are confident that the government, parent, or affiliate would also provide a degree of extraordinary support to the hybrid instrument. As a reminder, for an instrument to be consistent with our "high" equity content classification because of a mandatory deferral based on a defined trigger, we expect the trigger (even if not linked to a rating) to activate within three notches of the current ICR, rather than within three notches of the current SACP. RELATED CRITERIA AND RESEARCH General Criteria: Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010 General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010 Criteria/Corporates/General:Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008 These criteria represent the specific application of fundamental principles that define credit risk and ratings opinions. Their use is determined by issuer- or issue-specific attributes as well as Standard & Poor's Ratings Services' assessment of the credit and, if applicable, structural risks for a given issuer or issue rating. Methodology and assumptions may change from time to time as a result of market and economic conditions, issuer- or issue-specific factors, or new empirical evidence that would affect our credit judgment.