Article Title: Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments Data: (EDITOR'S NOTE: —On March 22, 2023, we republished this article to correct a publication error and make nonmaterial changes. See the "Revisions And Updates" section for details.) 1. This article presents S&P; Global Ratings' criteria for classifying insolvency regimes and determining jurisdiction ranking assessments. 2. This paragraph has been deleted. 3. The criteria constitute specific methodologies and assumptions under "Principles Of Credit Ratings" and relate to our criteria articles "Recovery Rating Criteria For Speculative-Grade Corporate Issuers," "General Project Finance Rating Methodology," and "Issue Credit Rating Methodology For Nonbank Financial Institutions And Nonbank Financial Services Companies." SCOPE OF THE CRITERIA 4. These criteria apply when determining recovery ratings and issue credit ratings (when we apply our recovery criteria) on the debt of nonfinancial corporate issuers, and when determining project finance recovery ratings. The criteria also apply when determining recovery ratings and issue credit ratings for certain nonbank financial services companies (FSCs) when we apply our recovery criteria. The criteria only apply where we have established jurisdiction ranking assessments. SUMMARY OF THE CRITERIA 5. The criteria establish how we determine a jurisdiction ranking assessment, which is an indicator of the relative degree of protection that a country's insolvency laws and practices afford to creditors' interests, and of the predictability of those proceedings. The assessment captures how insolvency proceedings and rule-of-law considerations in a given jurisdiction are likely to affect postdefault recovery prospects for creditors subject to insolvency proceedings in that jurisdiction. 6. Under the criteria, we classify insolvency regimes into three groups, which in turn form the jurisdiction ranking assessments: Group A, Group B, and Group C. A report will be published detailing each jurisdiction ranking assessment, which will explain how the jurisdiction ranking assessment is used by S&P; Global Ratings. The assessments may be factored into our methodology for assigning recovery ratings and all global scale issue credit ratings in a jurisdiction as follows: In Group A jurisdictions, recovery ratings are not capped, and issue credit ratings may be rated up to three notches above and up to two notches below the issuer credit rating (ICR); In Group B jurisdictions, we cap recovery ratings, and issue credit ratings may be rated up to one notch above and up to two notches below the ICR; and In Group C jurisdictions, we do not assign recovery ratings. We apply the same notching rules to determine issue credit ratings as we do in jurisdictions where we have not assigned a jurisdiction ranking assessment, as set forth under our criteria "Reflecting Subordination Risk In Corporate Issue Ratings," except that we do not notch issue credit ratings up from the ICR in these jurisdictions. 7. In addition, a jurisdiction ranking assessment may be factored into our methodology for assigning recovery ratings for assigning national or regional scale issue credit ratings, as described in "Methodology For National And Regional Scale Credit Ratings." 8. Alternatively, a jurisdiction ranking assessment may be used to inform the application of certain criteria (but not as an input in the derivation of recovery ratings and related issue credit ratings for entities in that jurisdiction) or may be published for informational purposes. 9. To determine the ranking of a jurisdiction, we assess separately two main components for that jurisdiction: i) creditor-friendliness, and ii) rule-of-law risk. We then combine those two components to form the jurisdiction ranking assessment. 10. We derive the creditor-friendliness assessment from our analysis of seven subfactors spanning the areas of security, creditors' influence, distribution of value, and time to resolution. These subfactors are: Scope and ability to take and retain security over assets; Degree of value preservation of assets to secured creditors; How supportive insolvency proceedings are of going-concern reorganization; Degree of creditor control over proceedings and asset sales; Conformity of the distribution of proceeds to legal (including contractual) ranking of claims; Extent to which pre-insolvency creditors ranking can be affected by higher claims priority granted to postinsolvency creditors (known as "priming"); and Time to resolution of insolvency proceedings. 11. To derive the rule-of-law risk assessment, we draw from our country risk criteria (see "Country Risk Assessment Methodologies And Assumptions"). 12. Where we have assigned a jurisdiction ranking which will be used in the derivation of recovery ratings and related issue credit ratings for entities in that jurisdiction, as described in paragraph 6 above, we would, in Group A and Group B ranked jurisdictions, determine issue credit ratings for issuers rated 'BB+' or lower by combining our recovery rating and the notching rules that apply as a result of these criteria. In Group C jurisdictions, issue credit ratings are determined by applying "Reflecting Subordination Risk In Corporate Issue Ratings." In jurisdictions where we have not assigned a jurisdiction ranking, we generally continue to determine, for issuers rated 'BB+' or lower, the notching of an issue credit rating from the ICR based on the criteria article "Reflecting Subordination Risk In Corporate Issue Ratings." 13. This paragraph has been deleted. 14. This paragraph has been deleted. METHODOLOGY A. Framework 15. Although any insolvency proceeding involves some measure of uncertainty, regardless of where it takes place, we have identified some key factors that determine the degree of creditor protection and predictability offered by disparate regimes. Each regime approaches the insolvency process in different ways and with different motivations. A jurisdiction may prioritize rapid processes driven by secured creditors; debtor restructurings or reorganizations; or protecting noncreditor constituencies or interests. In addition, how and the degree to which certain broader risks (such as the respect for rule of law, property rights, contract rights, enforceability, corruption, and related event risk) materialize in a specific country is relevant for the ultimate realization of recoveries through insolvency proceedings. As such, to establish a jurisdiction ranking, we focus on two main factors: creditor-friendliness and rule-of-law risk. 16. Under the methodology, we classify insolvency regimes and jurisdictions into one of three possible groups: Group A--Creditor-friendly regimes that facilitate the potential for strong absolute recovery rates and provide good predictability about recovery outcomes and timing through reliable enforcement of the insolvency laws and clear priority rankings among creditors. In these jurisdictions, rule-of-law risk is not a negative consideration. Group B--Regimes that are less supportive of creditors than Group A countries due to insolvency law provisions, enforceability, predictability, or rule-of-law risk considerations that we expect will generally constrain recoveries for creditors. In these jurisdictions, our recovery ratings are capped at no higher than '2', indicating an expectation of substantial recovery, defined as 70%-90%. (For the definition of our recovery rating scale, see section I in "S&P; Global Ratings Definitions.") Group C--Regimes where, in practice, the lack of differentiation between creditor classes is such that we do not consider that recovery prospects can be determined with sufficient confidence, either because the insolvency regime does not conform to international norms of priority rankings, or because a high or very high rule-of-law risk significantly undermines predictability of the enforcement of contractual rights and the resolution of insolvencies. In these jurisdictions, we would not assign recovery ratings, and would apply the same notching rules to determine issue credit ratings as we do in jurisdictions where we have not assigned a jurisdiction ranking assessment, as set forth under "Reflecting Subordination Risk In Corporate Issue Ratings," except that we do not notch issue credit ratings above the ICR in these jurisdictions. 17. We derive a jurisdiction ranking assessment by combining two main components: i) the creditor-friendliness assessment, and ii) the rule-of-law risk assessment. We aim to capture the characteristics of a country's insolvency laws and practices, the enforceability and predictability of those laws, the effectiveness of those laws at protecting creditors' interests, and the degree of risk stemming from rule-of-law risk considerations prevalent in that country. 18. Creditor-friendliness is assessed on a scale from '1' (very strong) to '5' (very weak). To arrive at this assessment, we analyze seven subfactors spanning four areas: security, creditors' influence, distribution of value, and time to resolution (see Table 1). Table 1 The Subfactors Of Creditor Friendliness AREA CREDITOR-FRIENDLINESS SUBFACTOR Security 1-Scope and ability to take and retain security over assets 2-Degree of preservation of asset values to secured creditors Creditors' influence 3-How supportive insolvency proceedings are of going-concern re-organization 4-Degree of creditor control over proceedings and asset sales Distribution of value 5-Conformity of the distribution of proceeds to legal (including contractual) ranking of claims 6-Extent to which preinsolvency creditors' ranking can be affected by higher claims priority granted to postinsolvency creditors ("priming") Time to resolution 7-Time to resolution of insolvency proceedings 19. We ascribe equal importance to each of the four areas (equivalent to a 25% weighting each), and weigh the underlying subfactors within each area equally (in effect ascribing a 12.5% weighting to subfactors 1 to 6, and a 25% weighting to subfactor 7). We then combine our assessments of the subfactors to derive the preliminary creditor-friendliness assessment using a weighted-average calculation. We use qualitative and quantitative information derived from a variety of sources, including S&P; Global Ratings' internal research and third-party reports or data. We may modify the preliminary creditor-friendliness assessment to account for overall quality-of-information considerations or positive or negative developments, trends, or emerging risks. We then derive the final creditor-friendliness assessment as described in section C. The treatment of the creditor-friendliness assessment is detailed in sections B and C. 20. Rule-of-law risk is assessed on a six-point scale: 1-very low risk; 2-low risk; 3-intermediate risk; 4-moderately high risk; 5-high risk; or 6-very high risk. We determine the assessment using the methodology for assessing the payment culture/rule-of-law risk described in our country risk criteria. In some cases, the country risk criteria indicate that the assessment of payment culture/rule-of-law risk should be adjusted to reflect S&P; Global Ratings' insolvency regime analysis. In cases where we identify that such an influence has been factored in, we modify our jurisdiction ranking assessment to exclude the influence of insolvency regime classification considerations. We view the rule-of-law risk as key to determining a jurisdiction ranking assessment, because insolvency laws that are supportive to creditors will only consistently offer creditors higher recoveries than less supportive laws if they are enforced and applied in a reliable and predictable manner. This component addresses risks such as the respect for rule of law, property rights, contract rights, enforceability, corruption, and related event risk that are relevant for the ultimate realization of recoveries through insolvency proceedings. The treatment of the rule-of-law risk assessment is detailed in section D. 21. We use the matrix in Table 2 below to combine the creditor-friendliness assessment and the rule-of-law risk assessment. Table 2 Creditor-Friendliness/Rule-Of-Law Risk Combination Matrix DETERMINING THE JURISDICTION RANKING ASSESSMENT RULE-OF-LAW RISK ASSESSMENT Creditor-friendliness assessment 1 or 2 3 4 5 or 6 1-Very strong, or 2-Strong A A B C 3-Medium B B B/C* C 4-Weak B B/C* C C 5-Very weak C C C C *See paragraph 22 for the applicable outcome. 22. We expect combinations at the bottom-left and upper-right ends of the Table 2 matrix to be rare occurrences. When two outcomes are listed for a given combination, we determine the jurisdiction ranking as follows: When the rule-of-law risk assessment is intermediate risk and the creditor-friendliness is weak, we assess the jurisdiction as Group C, unless we have identified a positive trend in either the creditor-friendliness or rule-of-law risk assessments, in which case the jurisdiction ranking will be Group B. When the rule-of-law risk assessment is moderately high risk and the creditor-friendliness is medium, we assess the jurisdiction as Group B, unless we have identified a negative trend in either the creditor-friendliness or rule-of-law risk assessments, in which case the jurisdiction ranking will be Group C. 23. Chart 1 summarizes the methodology for determining jurisdiction rankings. B. Assessing The Subfactors Of Creditor-friendliness 24. The creditor-friendliness assessment is based on our analysis of seven subfactors that span four different areas: i) security, ii) creditors' influence, iii) distribution of value, and iv) time to resolution. As shown in Table 1, there are two security-related subfactors, two creditors' influence-related subfactors, two distribution of value-related subfactors, and one time to resolution-subfactor. 25. We assess each subfactor as positive, neutral, negative, or inconclusive evidence; the latter is applied if we do not have sufficiently conclusive evidence to assess the subfactor. We then translate those assessments into points on a four-point scale, whereby a positive assessment corresponds to 1 point, a neutral assessment corresponds to 2 points, an inconclusive evidence assessment corresponds to 3 points, and a negative assessment corresponds to 4 points. 26. The assessment of each subfactor will be based on our analysis of qualitative or quantitative information derived from a variety of data sources. Where available, we will incorporate S&P; Global Ratings' country-specific analysis of legal considerations; data and information from our recovery studies (that inform our view of the length of insolvency proceedings, and actual recovery rates for various classes of creditors); and our experience with default cases of rated issuers. We also draw on various sources--which may inform our views on time to resolution, cost of the proceedings, likelihood of a going-concern versus liquidation outcome, or recovery rates for secured creditors--and reviews from reputable law firms of countries' restructuring and insolvency procedures. In addition, where we view a subfactor as being on the border between two categories, the assessment takes into account the relative strength of the subfactor compared with our assessment of that same subfactor in peer jurisdictions. 27. Where we see an absence of conclusive evidence, it has a negative effect on our assessment; we place such an assessment between neutral and negative in the rank order. To assess a given subfactor as positive or neutral, we must be confident that the information underlying our assessment of that subfactor is conclusive. Under certain circumstances, described in paragraph 41, an inconclusive evidence assessment will result in a cap on the creditor-friendliness assessment. We could also cap the creditor-friendliness assessment if we assess any subfactor as negative, depending on our view of the severity of the related weakness or deficiency. 28. In the following paragraphs, we describe how we assess each subfactor. a) Security-related subfactors 29. When creditors can take security over all or some of a borrower's assets and effectively realize that security, this typically supports greater recoveries for those secured creditors than for unsecured creditors that do not benefit from any preference claims over the debtor's assets. As such, we evaluate the following: Scope and ability for creditors to take and retain security over assets. We consider the law's provisions on the type of security (pledge, assignments, or floating charges) available to creditors and the eventual restriction on the type of assets over which security may be taken, due to legal limitations or practical cost or effectiveness considerations. We also consider the clarity and effectiveness of the mechanism for perfection and registration of security, that is, whether procedures are in place to reduce the risk of a legal or third-party challenge to security holders' claims. In addition, we consider the length of lookback periods--short or restricted lookback periods typically effectively reduce the risk of security being annulled to the detriment of secured creditors. Degree of preservation of asset values to secured creditors. We consider whether available data on recovery rates for secured creditors supports the expectation that the value of pledged assets is preserved and flows to secured creditors through insolvency. 30. To determine the assessment of these subfactors we use the guidance in Table 3. Table 3 Assessing The Security-Related Subfactors --TYPICAL CHARACTERISTICS-- SUBFACTOR POSITIVE NEUTRAL NEGATIVE Scope and ability to take and retain security over assets Creditors have the ability and willingness to take security over all assets of a corporate entity, including the existence of "floating charge" type security. Some limitations exist on the types of security that may be taken, either being absent from the law or through other legal constraints, such as restrictive financial assistance laws. Creditors are generally unable or unwilling to take or perfect security for reasons relating to cost or effectiveness. Security must be perfected and registered to be valid, and the registration procedures are transparent for third parties. Delayed or less transparent perfection and registration procedures for security or registration procedures that only apply to certain assets. There are no or only weak mechanisms for registering security for the protection of security holders' rights. Preference or lookback periods for transactions do not exceed six months for third-party transactions and two years for related-party transactions, reducing the risk of security being annulled to the detriment of secured creditors. Lookback periods for voidable transactions exceed six months for third-party transactions, but are less than 12 months, and exceed two years for related-party transactions, but are less than three years. Lookback periods exceed 12 months for third-party transactions and three years for related-party transactions. Degree of preservation of asset values to secured creditors Available data indicate that recoveries for secured creditors typically exceed 50%. (At any company-specific level, recoveries for secured creditors will vary based on capital structure and asset values, and may not reflect such macro data.) Available data indicate that recoveries for secured creditors are less than 50%, but more than 30%. Available data indicate that recoveries for secured creditors are less than 30%. b) Creditors' influence-related subfactors 31. Where procedures provide creditors with an opportunity to influence the insolvency proceedings and the process through which recoveries are realized, and where a creditor's influence is generally commensurate with its relative position in the capital structure, this typically leads to greater differentiation of recovery prospects between creditors' classes. In addition, where the law promotes negotiated settlements with creditors, this tends to preserve the value of the entity through insolvency proceedings. As such, we evaluate: How supportive insolvency proceedings are of going-concern reorganizations. We consider whether the legal framework supports reorganization of insolvent businesses and whether empirical data points to the prevalence of reorganizations or liquidations. Degree of creditor control over proceedings and asset sales. We consider the influence of various creditor classes and that of noncreditors over the proceedings. This influence often depends on whether proceedings tend to be court-led or creditor-led, and on the constitution and rights of creditor committees. 32. To determine how we assess these subfactors, see Table 4. Table 4 Assessing Creditors’ Influence-Related Subfactors --TYPICAL CHARACTERISTICS-- SUBFACTOR POSITIVE NEUTRAL NEGATIVE How supportive insolvency proceedings are of going-concern reorganizations The legal framework supports the reorganization of insolvent businesses and available data points to going-concern reorganization as being the most prevalent outcome. The legal framework provides for reorganization of insolvent businesses, but execution is more difficult. While reorganization is the more common outcome, available data points to a relatively high frequency of liquidations. The legal framework does not support reorganization of insolvent companies and available data points to liquidation as being the most common outcome of insolvency rather than reorganization as a going concern. Degree of creditor control over proceedings and sale of assets Secured creditors can heavily influence court proceedings through the use of creditor committees and cram-down provisions and can enforce their security interests without court approval. The insolvency process is largely court-led rather than creditor-led; however, the secured creditors retain significant influence in the process through creditor committees and voting rights for the approval of reorganization plans. Proceedings are influenced by third parties unconnected with the courts, debtor, or creditors, or creditor participation and influence does not reflect their relative ranking in the capital structure (for example, foreign and domestic creditors in the same class of debt are treated differently, or secured creditors do not retain significant influence over the proceedings). c) Distribution of value-related subfactors 33. Recovery prospects for creditors can be significantly affected by the types and amounts of claims that receive priority status over and above prepetition debt claims. As such we evaluate: Conformity of the distribution of proceeds to legal (including contractual) ranking of claims. We assess whether value is distributed to creditors based on their relative position in the capital structure, or whether the distribution of value differs as a result of insolvency rules or practical considerations. Extent to which creditors can be primed. We define priming as the process by which a new lender is granted a higher claims priority over a current secured debtholder. We consider whether existing liens may be primed by new money without compensating the creditor with equivalent value, and whether restrictions exist that limit claims from postpetition creditors. 34. To determine the assessment of the distribution of value subfactors, we use the guidance in Table 5. Table 5 Assessing Distribution Of Value Subfactors --TYPICAL CHARACTERISTICS-- SUBFACTOR POSITIVE NEUTRAL NEGATIVE Conformity of the distribution of proceeds to the legal (including contractual) ranking of claims There is evidence that the law prohibits the court from modifying the ranking of different creditor claims and that enforcement of the distribution of proceeds is based on security ranking and subordination agreements. In addition, preferential claims that rank ahead of secured creditors are limited. There is evidence that the law prohibits the court from modifying the ranking of different creditor claims; however, there is some scope for preferential claims to emerge, which could weaken the position of, and recoveries for, secured creditors. The distribution of value does not reflect the legal ranking of claims even after allowing for any preferences given to post-filing creditors. There is scope for significant preferential claims to emerge (for example, taxes, employee claims, etc.) or the legal waterfall does not meet international norms of creditor ranking (for example, equity claims rank ahead of debt). Extent to which prebankruptcy creditors may be primed by debt raised during the insolvency process. Prebankruptcy claims cannot be primed by credit obtained during the insolvency process without adequate compensation and consent of the existing creditors. Post-filing credit is given priority over prebankruptcy creditors, usually with the consultation or consent of prebankruptcy creditors or subject to specified limits; however, there is evidence that this typically leads to going-concern reorganization. Few restrictions exist on the raising of post-petition debt, leading to significant priming of claims with minimal input from prepetition creditors. d) Time to resolution-related subfactor 35. Lengthy proceedings tend to erode recovery values, while shorter proceedings tend to preserve recoveries. This subfactor addresses how much time generally elapses between insolvency and ultimate resolution (including payment to creditors or the ultimate monetization of noncash distributions). Time to recovery is influenced by various factors, including: The type of insolvency proceedings that are available under the law; The ability of various parties to influence proceedings by using available delay tactics afforded by the legal framework, and the likelihood that those tactics will succeed; The length of any "stay" or "moratorium," which prevents creditors from realizing their collateral security or retaining the debtor's property without leave of the court; and Whether the law promotes negotiated settlements with creditors to expedite the proceedings. 36. To assess the time to resolution subfactor, we use the guidance in Table 6. Table 6 Assessing The Time To Resolution Subfactor --TYPICAL CHARACTERISTICS-- SUBFACTOR POSITIVE NEUTRAL NEGATIVE Time to resolution of insolvency proceedings Insolvency procedures are generally completed within two years, based on external data or the scope and extent of court delays, stays, and moratoria that exist within the legal framework. Insolvency procedures are generally completed within 2-3 years, based on external data or the scope and extent of court delays, stays, and moratoria that exist within the legal framework. Insolvency procedures generally extend beyond three years, based on external data or the scope and extent of court delays, stays, and moratoria that exist within the legal framework. C. Determining The Creditor-Friendliness Assessment 37. After we have determined the assessment of each subfactor, we then establish the preliminary creditor-friendliness assessment by multiplying the number of points for each subfactor by the subfactor's weight. The weighted-average outcome ranges from 1 to 4 points. We translate those points to derive the preliminary creditor-friendliness assessment on a five point scale from very strong to very weak (see table 7 below). 38. We ascribe equal importance to each of the four areas of creditor-friendliness, and give equal weight to the underlying subfactors within each area. This is based on our overall view of the majority of countries. However, as described in paragraphs 42-43, we may adjust a creditor-friendliness assessment that results from those standard weightings, if we consider that emerging legal risks, developments, or trends are not appropriately captured in our assessment. Table 7 Preliminary Creditor-Friendliness Assessment POINTS 1-Very strong 1.0 to <1.5 2-Strong 1.5 to <2.0 3-Medium 2.0 to <2.75 4-Weak 2.75 to <3.5 5-Very weak 3.5 to 4.0 39. In the absence of additional adjustment, the final creditor-friendliness assessment would be equal to the preliminary creditor-friendliness assessment. 40. In certain cases, as described in the following paragraphs, we may adjust the preliminary creditor-friendliness assessment to take into account overarching factors, such as overall conclusiveness of available evidence, consideration of whether any new insolvency laws have been sufficiently tested in practice, emerging risk from recent changes in legislation or case law, and overall comparison with other jurisdictions. 41. We will cap the final creditor-friendliness assessment in the following circumstances: If we assess any one or two subfactor(s) is/are assessed as inconclusive evidence, the creditor-friendliness assessment will be no higher than strong. If three subfactors are assessed as inconclusive evidence, the creditor-friendliness assessment will be no higher than medium. If four or more subfactors are assessed as inconclusive evidence, the creditor-friendliness assessment will be no higher than weak. If any subfactor is assessed as negative, and we consider the underlying deficiency(ies) or weakness(es) to be so severe as to overweigh other factors, we would assess creditor-friendliness as no better than weak. 42. We lower the preliminary creditor-friendliness assessment by one category if any of the circumstances below apply: The country's insolvency laws have changed in recent years to the benefit of creditors, and our subfactor assessments reflect those favorable changes, but we consider that the laws remain untested in practice. We have identified a meaningful negative trend in several of the subfactors (for instance, increasing time to resolution, decreasing recovery rates for secured creditors), we do not think this trend is fully captured in our assessment of the subfactors themselves, and we expect the trend to continue. Recent changes in the insolvency legislation or other relevant negative developments (for example, relevant case law) point to a deterioration in the creditor-friendliness of the environment, and this is not already captured in the qualitative or quantitative information that we use to assess the subfactors. Alternatively, as a result of those changes, the generic weights we apply to the subfactors (see table 1) do not fully capture the changing nature of risks in that specific jurisdiction. Peer comparisons with several other ranked jurisdictions suggest that, overall, the jurisdiction is less creditor-friendly than otherwise implied by the preliminary assessment (see paragraph 44). 43. In more exceptional circumstances, we may raise the preliminary creditor-friendliness assessment by one category where all of the following conditions are present: The number of points mapping to a given preliminary creditor-friendliness assessment are at the more favorable end of the range in Table 7; Empirical data show a consistent multiyear trend of improvement in quantitative measures (for instance, time to resolution has been consistently diminishing, recovery rates are improving) and we expect these trends to continue; We do not expect future changes in insolvency laws to have negative creditor-friendliness implications; and Peer comparisons with several other ranked jurisdictions support a one-category-higher creditor-friendliness assessment than otherwise implied by the preliminary assessment. 44. Peer comparisons cited in the above paragraphs would be based on our holistic view of the jurisdiction's creditor-friendliness compared with that of jurisdictions that we consider close benchmarks. We select peer jurisdictions, for instance, because their insolvency laws and frameworks follow largely similar overarching principles, their legal frameworks have evolved in a similar direction over the years (for example, recent enactment of similarly minded reforms), and because empirical research points to similarities or differences in the application or enforcements of insolvency procedures and ultimate recovery prospects for various classes of creditors. D. Determining The Rule-Of-Law Risk Assessment 45. The rule-of-law risk is a relevant component to determine a jurisdiction ranking, as insolvency laws that are supportive to creditors will only consistently offer creditors higher recoveries than less supportive laws if they are enforced and applied in a reliable and predictable manner. 46. The rule-of-law risk assessment draws from our payment culture/rule-of-law risk assessment in our country risk criteria. 47. This paragraph has been deleted. 48. Where a country risk payment culture/rule-of-law risk assessment has been adjusted to reflect S&P; Global Ratings' insolvency regime analysis, we will modify the assessment for these criteria to exclude any impact of the insolvency regime classification in the assessment, if we can identify such influence. This is to avoid any double-counting of the creditor-friendliness of a jurisdiction in the rule-of-law risk and creditor-friendliness assessments that we combine to derive the jurisdiction ranking assessment under these criteria. E. Impact Of Jurisdiction Ranking Assessments On Recovery Ratings And Issue Credit Ratings 49. Periodically, we will publish an article explaining how we expect to use each jurisdiction ranking assessment in our ratings analysis. We may factor the jurisdiction ranking assessment into our methodology for assigning recovery ratings and all global scale issue credit ratings in a jurisdiction, as described in paragraphs 50-52. In addition, a jurisdiction ranking assessment may be factored into our methodology for assigning recovery ratings for national or regional scale issue credit ratings, as described in "Methodology For National And Regional Scale Credit Ratings." Alternatively, a jurisdiction ranking assessment may be used to inform the application of certain criteria (but not as an input in the derivation of recovery ratings and related issue credit ratings on entities in that jurisdiction) or may be published for informational purposes. 50. If the jurisdiction ranking assessment that results from Table 2 is used to determine jurisdiction-specific adjustments to our recovery ratings, including whether we will assign recovery ratings or not, and the notching rules applicable for issue credit ratings (see table 8 below), it will be applied as described in paragraphs 51-53. 51. In Group A jurisdictions, recovery ratings are not capped, and issue credit ratings may be rated up to three notches higher than the ICR. 52. In Group B jurisdictions, recovery ratings are capped at '2'. Issue credit ratings will not be rated more than one notch above the ICR--and then only in limited cases where there is strong collateral coverage and preliminary calculations indicate that recovery would be within the 90%-100% range if it were not for our jurisdiction-related concerns. Recovery ratings in Group B jurisdictions are capped at '3' when preliminary calculations indicate recovery of less than 90%. 53. We do not assign recovery ratings in Group C jurisdictions. Issue credit ratings will be determined by applying the provisions set forth in our criteria article "Reflecting Subordination Risk In Corporate Issue Ratings," except that we will not notch up issue credit ratings above the ICR in those jurisdictions. We apply "Reflecting Subordination Risk In Corporate Issue Ratings" to determine the notching for issue credit ratings in jurisdictions where we have not assigned a jurisdiction ranking assessment. Table 8 Applicable Recovery Rating Caps And Issue Credit Rating Notching Rules By Group GROUP A PRELIMINARY RECOVERY CALCULATION % (*) EXPECTED RECOVERY (%) RECOVERY RATING ISSUE CREDIT RATING NOTCHING RELATIVE TO ICR (†) 100+ 100 1+ 3 90-100 90-100 1 2 70-90 70-90 2 1 50-70 50-70 3 0 30-50 30-50 4 0 10-30 10-30 5 -1 0-10 0-10 6 -2 GROUP B PRELIMINARY RECOVERY CALCULATION % (*) EXPECTED RECOVERY % (§) RECOVERY RATING ISSUE CREDIT RATING NOTCHING RELATIVE TO ICR (†) 100+ 70-90 2 1 90-100 70-90 2 1 70-90 50-70 3 0 50-70 50-70 3 0 30-50 30-50 4 0 10-30 10-30 5 -1 0-10 0-10 6 -2 GROUP C WE DO NOT ASSIGN RECOVERY RATINGS IN THOSE JURISDICTIONS. TO DETERMINE THE NOTCHING OF AN ISSUE CREDIT RATING FROM THE ICR, WE APPLY “REFLECTING SUBORDINATION RISK.” *Prior to factoring the effect of the jurisdictional analysis. §After adjustments for jurisdiction-related considerations. †Such notching only applies when we apply our recovery rating criteria (see "Recovery Rating Criteria For Speculative-Grade Corporate Issuers") and is outside the scope of “Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings.” For example, in Group A, a nondeferrable security is rated ‘CCC’ if it has a recovery rating of ’6’ and the issuer’s ICR is ’B-‘. Such notching is subject to applicable provisions related to assigning issue credit ratings above the sovereign (see paragraph 51 of “Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions”). For additional specific considerations regarding corporate utility debt secured by a pledge of real property, see “Collateral Coverage And Issue Notching Rules For ‘1+’ And ‘1’ Recovery Ratings On Senior Bonds Secured By Utility Real Property.” F. Analytical Approach To Multiple Jurisdictions 54. In cases where an issuer operates in multiple jurisdictions, a fair degree of uncertainty may exist as to how the legal process for addressing the claims of creditors and other stakeholders would unfold in the context of a default. In order to assign recovery ratings to the debt obligations of such issuers and determine the notching of issue credit ratings, we seek to identify the jurisdiction where we anticipate that insolvency proceedings for the rated debt obligations are most likely to take place. This jurisdiction is not necessarily the issuer's home jurisdiction. 55. To make this determination, we first identify the entities within the group that are most likely to become insolvent. As a general matter, we assume that subsidiaries or other entities within the group that are not primary obligors on material debt would remain solvent and would not become subject to insolvency proceedings. Then, we assess whether a reorganization or liquidation is more likely to occur, by applying our recovery criteria. As outlined in more detail below, we generally contemplate that a reorganization-type scenario will involve a "main proceeding" in a single jurisdiction for all rated debt obligations, while liquidation-type scenarios could involve the insolvency regimes of each jurisdiction in which the group has a corporate existence or has material assets. For example, it is not uncommon for entities to create an issuing entity--for tax or other reasons--and incorporate it in jurisdictions such as the British Virgin Islands, Jersey, or the Cayman Islands but not house any material assets or maintain significant capital market relationships in that jurisdiction. In those cases, given the absence of a significant presence of creditors or assets, we generally do not think that insolvency proceedings will occur in such jurisdictions, so the degree of their creditor friendliness is not likely to affect creditors' postdefault recovery prospects. As such, for issuers that have been incorporated in such locales, we would identify the relevant jurisdiction(s) as where we anticipate that insolvency or restructuring proceedings for the rated debt obligations are most likely to take place, in line with the factors addressed below. a) Reorganization 56. If we think reorganization is the more likely event, we will typically use the jurisdiction where we expect the main reorganization proceeding for a rated debt obligation to occur as the applicable jurisdiction for determining recovery ratings caps. We will generally assume that the main reorganization proceedings will take place in the country of domicile for the issuer or borrower of the rated debt, unless our assessment of the issuer's jurisdictional profile points to another jurisdiction. This assessment involves our consideration of various factors: Jurisdiction of domicile of group's parent company; Jurisdiction of headquarters; Jurisdiction of key decision makers; Jurisdictions of subsidiaries or other entities that have material debt obligations--whether as borrowers, issuers, or guarantors; Jurisdictions of subsidiaries or other entities that hold material assets; and Governing law of issuer's primary debt instruments. 57. The relative importance of each factor will often vary and may depend on such variables as the number of jurisdictions involved, the complexity of the issuer's organizational structure, and the cause of the insolvency. Therefore, where possible, we draw on a comparison with precedent cases, and examples of bankruptcy resolutions involving companies with similar cross-border or multi-jurisdictional exposure. For example, based on the outcome of precedent comparable cases, we may assume a Chapter 11 of the U.S. Bankruptcy Code restructuring for a non-U.S.-based issuer if, in our view, the issuer has material ties to the U.S. (operationally, through capital-raising activities, or otherwise) and creditors would have incentives to resolve their claims under Chapter 11 and forego the exercise of remedies against entities in other jurisdictions. Generally, the following assumptions guide our analysis. 58. U.S. issuers.For enterprises where we determine a U.S. nexus, we generally assume that the proceeding will take place under Chapter 11 of the U.S. Bankruptcy Code and incorporate these assumptions: We generally assume that non-U.S. subsidiaries will not become subject to proceedings in their home jurisdictions unless we conclude that such entities would be insolvent. We generally assume that non-U.S. subsidiaries that we expect to remain solvent will not become subject to proceedings in their home jurisdictions, even if they provide guarantees or pledge their assets to support the U.S. parent's debt. Our analysis of recovery prospects within the Chapter 11 context would reflect the impact of any non-U.S. proceedings that we assume would occur, or otherwise capture the residual (equity) value of non-U.S. subsidiaries. We generally assume that the economic or "recovery" value inherent in any guarantees or asset pledges provided by non-U.S. entities would be given effect in a Chapter 11 proceeding. 59. Canadian issuers.For enterprises with a Canadian nexus, the factors discussed above for U.S. issuers generally apply, and we generally assume that the proceeding will take place under the Companies' Creditors Arrangement Act (CCAA). 60. Non-U.S. issuers with ties to the U.S. or Canada.For non-U.S. issuers that have material ties to the U.S. or Canada--operationally, through capital raising activities, headquarters location, or otherwise--we will consider the likelihood that the issuer and its creditors would seek to restructure under Chapter 11 in the U.S. or the CCAA in Canada and avoid initiating proceedings in the issuer's home jurisdiction or other available jurisdictions. In addition: We will consider the incentives that the issuer may have to avail itself of Chapter 11 or CCAA reorganization. We will consider the incentives of creditors to agree to resolve their claims within the confines of Chapter 11 or CCAA and to forego the exercise of remedies against guarantors or other obligors in other jurisdictions. We generally assume that banks, bondholders, and other creditors with sufficient ties to the U.S. or Canada will not seek to circumvent or run afoul of the Chapter 11 or CCAA process. We generally assume that the economic or "recovery" value inherent in any guarantees or asset pledges provided by non-U.S. entities (or non-Canadian ones) would be given effect in a Chapter 11 or CCAA proceeding. We generally assume that non-U.S. subsidiaries (or non-Canadian ones) will not become subject to proceedings in their home jurisdictions unless we conclude that such entities would be insolvent. 61. Europe.For EU-domiciled companies we draw on the guidelines outlined in paragraphs 56-57 to determine where the "center of main interest" (COMI) would be located. We then use that country as the reference for determining applicable recovery ratings and issue credit rating caps. 62. Other regions.For issuers in other Group A countries where a Chapter 11 or CCAA process is not contemplated, we assume main proceedings will take place under the local insolvency regime. For all other issuers in Group B and C jurisdictions where a Chapter 11 or CCAA process is not contemplated, we will consider whether there are sufficient grounds to expect that main insolvency proceedings would take place in a Group A jurisdiction (other than the U.S. or Canada), and whether any factors involving insolvency proceedings by foreign subsidiaries are present. In the absence of such factors, we will assume that main proceedings will be opened under the local insolvency regime. b) Liquidation 63. If we assume that liquidation is the more likely outcome, then we generally assume that insolvency proceedings relating to the rated issuer would commence in the jurisdictions where the issuer and other obligors (such as guarantors) are domiciled, or where the group has material assets, because we assume that creditors will seek direct enforcement against the issuer in its home jurisdiction or wherever material assets may be located. We factor jurisdictional risks directly into our valuation analysis, by taking a somewhat more conservative view on the potential value of assets in Group B countries, and a significantly more conservative view on assets in Group C countries, than we would if those assets were in a Group A jurisdiction. GLOSSARY Collateral. Assets which the borrower pledges to the lender in connection with funds borrowed. The lender can use the pledged assets to recover some or all of the funds loaned if the borrower fails to live up to the terms of the loan agreement. "Cram-down" provision. A bankruptcy resolution tool used to force creditors to agree to a plan of reorganization. If the requisite minimum number of votes has been obtained to approve a plan of reorganization, and if the plan provides better protections or payments to the nonconsenting creditors than they would receive in a liquidation, then the court may approve the plan and all creditors will be bound by its terms. Floating charge. A floating charge is a security interest over a fund of changing assets of a company. If a default occurs, or the borrower goes into liquidation, the floating charge is converted into a fixed charge attached to those assets, making the lender a priority creditor. Going-concern reorganization. Type of default valuation assumption that takes into account the ability of the business to survive after a necessary reorganization/restructuring, as opposed to a liquidation. Lookback period. Period of time over which the bankruptcy trustee can go back to unwind transfers of interest that occurred before the bankruptcy filing. Moratorium or stay. A temporary period during which creditors, with certain exceptions, cannot collect debts or enforce the sale of assets from a debtor that has declared bankruptcy. Negative pledge. A negative covenant in an indenture stating that the company will not pledge certain assets to another creditor. Perfection of a security interest. Steps required to ensure the security interest is enforceable in favor of a creditor. Prepetition claim. A demand, as of right, that a company incurs before filing for bankruptcy protection. Priming. The act of granting a new lender a higher claims priority than an existing secured debtholder. Related-party transactions. A business transaction or conveyance among parties that have a special relationship with each other, either through family ties, related corporations, or other possibilities. REVISIONS AND UPDATES This article was originally published on Jan. 20, 2016. Changes introduced after original publication: Following our periodic review completed on Jan. 19, 2017, we deleted paragraphs 13 and 14, which were related to the initial publication of the criteria and no longer relevant. Following our periodic review completed on Jan. 17, 2018, we updated criteria references. On March 19, 2019, we republished this criteria article to make nonmaterial changes to the contact information and criteria references. On March 10, 2020, we republished this criteria article to make nonmaterial changes. Specifically, we updated criteria references throughout the article, as well as a reference in the "Related Research" section. On June 30, 2020, we republished this criteria article to make nonmaterial changes. Specifically, in paragraph 55, we clarified our approach to issuers that have established special issuing vehicles in jurisdictions such as the British Virgin Islands and Jersey, for tax or other reasons. On March 22, 2021, we republished this criteria article to make nonmaterial changes. Specifically, we updated criteria references throughout the article, as well as a reference in the "Related Research" section. On Dec. 14, 2021, we republished this criteria article to make nonmaterial changes to update criteria and related research references. On Feb. 22, 2022, we republished this criteria article to make nonmaterial changes to update related research references. On March 22, 2023, we republished this criteria article to correct a publication error and to make nonmaterial changes. The publication error, which appeared in paragraph 2, was that superseded criteria, listed below, were incorrectly referenced. In addition, we deleted paragraph 2, which contained information related to the initial publication that is no longer relevant. We also removed references to outdated data sources in paragraph 26, we removed content in paragraphs 46 and 47 that is included in "Country Risk Assessment Methodology And Assumptions," Nov. 19, 2013, and we updated criteria references and contacts. RELATED CRITERIA AND RESEARCH Related Criteria General Project Finance Rating Methodology, Dec. 14, 2022 Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021 Methodology For National And Regional Scale Credit Ratings, June 25, 2018 Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018 Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016 Issue Credit Rating Methodology For Nonbank Financial Institutions And Nonbank Financial Services Companies, Dec. 9, 2014 Project Finance Framework Methodology, Sept. 16, 2014 Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013 Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013 Collateral Coverage And Issue Notching Rules For ‘1+’ And ‘1’ Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013 Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012 Principles Of Credit Ratings, Feb. 16, 2011 Related Research S&P; Global Ratings Definitions, Nov. 10, 2021 Fully Superseded Criteria 2008 Corporate Criteria: Rating Each Issue, April 15, 2008