Article Title: Criteria | Corporates | General: Methodology: Holding Companies That Own Corporate Securitizations And Structurally Enhanced Debt Transactions Data: (EDITOR'S NOTE: —On June 5, 2023, we republished this criteria article to make nonmaterial changes. See the "Revisions And Updates" section for details.) 1. This article presents S&P; Global Ratings' criteria for rating debt issued by holding companies that own ring–fenced subsidiaries--which we refer to as "ring-fenced financing groups" (RFFG)--that are analyzed under our structurally enhanced debt criteria (SED) or as corporate securitizations. 2. RFFGs benefit from structural enhancements designed to reduce the risk of nonpayment of scheduled debt service payments at the RFFG. These, in turn, increase the risk of default at the holding company level because cash flow payments from the RFFG to the holding company can be stopped earlier and more easily than for standard corporate groups. If, as a result, the holding company cannot make its scheduled debt service payments, it could default. 3. This article relates to our criteria "Principles Of Credit Ratings," "Corporate Methodology" (referred to hereafter as "corporate methodology"), "Rating Structurally Enhanced Debt Issued By Regulated Utilities And Transportation Infrastructure Businesses," and "Stand-Alone Credit Profiles: One Component Of A Rating." SCOPE OF THE CRITERIA 4. The criteria would apply to holding companies that own and control RFFGs and depend on upstream distributions from them for substantially all (typically more than 80%) of their cash flow to service their own debt. 5. The criteria do not apply to holding companies that do not generate substantially all of their cash flows from distributions from their RFFG. The criteria also do not apply to project developers or holding companies that own project finance entities. SUMMARY OF THE CRITERIA 6. The criteria first determine whether we would consider the holding company and RFFG to be the same group or not, according to the conditions in paragraph 15. If they meet all the conditions, we consider them to be different groups, and these criteria would apply. If they do not meet all conditions in paragraph 15, we view the holding company and RFFG as the same group and these criteria would not apply. 7. For those holding companies that fall within the scope of these criteria, we derive the stand-alone credit profile (SACP) by first determining the SACP of the RFFG using the corporate methodology. The holding company's SACP is up to six notches below the SACP of the RFFG. The risk factors determining the number of notches are: (a) the holding company's cash flow interruption risk; (b) the holding company's liquidity; (c) the holding company's refinancing, foreign exchange, and interest rate risk; and (d) the holding company's stand-alone financial ratios. 8. Subject to the caps detailed in paragraphs 21 and 22, in determining the final notch differential we can adjust the preliminary number of notches up or down by one notch, based on our holistic review of the holding company's SACP, in which we evaluate the holding company's credit characteristics in aggregate. 9. The methodology we use to assign SACPs and ICRs in the 'CCC' and 'CC' category to issuers is described in "Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings." 10. We factor into the SACP any ongoing support or negative influence from a government (for government-related entities) or from a group, drawing on these criteria articles: "Group Rating Methodology" and "Rating Government-Related Entities: Methodology And Assumptions." The holding company ICR is derived from the SACP and the support framework, which determines whether the ICR should differ from the SACP to reflect the possibility of extraordinary group or government influence. If neither group nor government influence has any impact on the SACP, the holding company ICR is the same as its SACP. 11. The ICR could be constrained by the relevant sovereign rating and transfer and convertibility (T&C;) assessment. For the ICR to be higher than the sovereign rating or T&C; assessment, the entity must meet the conditions in "Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions." 12. This paragraph has been deleted. 13. This paragraph has been deleted. METHODOLOGY 14. These criteria apply to any holding company that owns and controls RFFGs, and where the holding company receives nearly all (typically, more than 80%) of the cash flow it uses to service its debt from the RFFG. Typically, the size and stability of the holding company's cash flow, which takes the form of distributions (including dividends and shareholder loan payments) from the RFFG, therefore depends on the RFFG's cash flow. In addition, the RFFG's structure typically includes limitations on the distribution of cash to the holding company, such as shareholder distribution lockup covenants and other nonfinancial covenants. Although these limitations support the credit quality of the RFFG structure, they are disadvantageous to the holding company's credit quality. 15. If the holding company and the RFFG meet all of the conditions below, we consider them to be different groups, and these criteria would apply. If they do not meet all the conditions, these criteria would not apply. (The terms below are defined in "General Project Finance Rating Methodology.") The RFFG has independent directors or an equivalent anti-bankruptcy filing mechanism at its operating company level. (For example: the appointment of an independent director to the operating company's board of directors and the requirement that there is unanimous board approval to file a petition for bankruptcy.) The RFFG has no cross-default provisions to entities outside of the RFFG. The RFFG cannot merge or reorganize. The RFFG meets the conditions for separateness from its parent(s) defined in "General Project Finance Rating Methodology." The RFFG has no parent dependencies (such as certain contracts with parents and affiliates, taxes, or insurance contracts). There are limitations on amendments to organizational documents. RFFG creditors have a security interest over those of the RFFG's assets that can be pledged as security. Establishing The SACP And ICR Of A Holding Company 16. The holding company's SACP is between one and six notches below the SACP of the RFFG, as determined by table 2, subject to the additional guidance in paragraphs 21 and 22. If the RFFG has a subordinated SACP, the holding company's SACP will always be at least one notch below the RFFG's subordinated SACP, reflecting the priority of payments to the RFFG's subordinated noteholders. 17. In determining the notching, we assess the following characteristics in table 1 as positive, neutral, or negative: (a) The holding company's cash flow interruption risk; (b) The holding company's liquidity; (c) The holding company's refinancing, foreign exchange, and interest rate risk; and (d) The holding company's stand-alone financial ratios. The criteria then sum the assessments, counting positives as 1, neutrals as 0 and negatives as -1. Table 1 Assessing The Notching CHARACTERISTICS POSITIVE NEUTRAL NEGATIVE Holding company cash flow interruption risk No RFFG distribution lockup is triggered within the next five years if RFFG's EBITDA declines 40% under S&P;'s base-case forecast for each of the five forecast years. If the RFFG operates in an industry that has industry risk of 4, 5, or 6, then the EBITDA decline for the test is 60%. No RFFG distribution lockup is triggered within the next five years if RFFG's EBITDA declines by up to 20% over S&P;'s base-case forecast for each of the five forecast years. If the RFFG operates in an industry that has industry risk of 4, 5, or 6, then the EBITDA decline for the test is 30%. A distribution lockup is triggered at RFFG within the next five years if RFFG's EBITDA falls by up to 20% from S&P;'s base-case forecast for each of the five forecast years. If the RFFG operates in an industry that has industry risk of 4, 5, or 6, then the EBITDA decline for the test is 30%. Holding company liquidity The holding company has a mandatory dedicated cash reserve or facility that provides funding sufficient to cover in excess of 18 months of its debt service obligations. The holding company has a mandatory dedicated cash reserve or facility that provides cash sufficient to cover between 12 and 18 months of its debt service obligations. Neither positive nor neutral scoring applies. Holding company refinancing, foreign exchange and interest rate risk 1) No more than 20% of holding company debt matures in any two-year period unless holding company debt to available cash flow is maintained below 1.0x throughout our base-case forecast period; 2) The holding company can withstand an interest rate shock of the higher of a 50% increase in the relevant central bank base interest rate (i.e., to 6% from 4%) or a 3% increase in the relevant central bank base interest rate (i.e., to 8% from 5%) while maintaining adequate liquidity (see "Methodology and Assumptions: Liquidity Descriptors For Global Corporate Issuers"); 3) The holding company is not exposed to any unhedged foreign exchange risks on its debts. 1) No more than 20% of holding company debt matures in any two-year period unless holding company debt to available cash flow is maintained below 1.5x throughout our base-case forecast period; 2) The holding company can withstand an interest rate shock of the higher of a 25% increase in the relevant central bank base interest rate or a 2% increase in the relevant central bank base interest rate, while maintaining adequate liquidity (see "Methodology and Assumptions: Liquidity Descriptors For Global Corporate Issuers"); 3) The holding company is not exposed to any unhedged foreign exchange risks on its debts. Neither positive nor neutral scoring applies Holding company stand-alone financial ratios The ratio of holding company debt to available cash flow is less than 1.5x, and the ratio of available cash flow to holding company interest is above 10.0x. (See definitions of terms in the Glossary.) Neither positive nor negative scoring applies. The ratio of holding company debt to available cash flow is above 4.0x, or the ratio of available cash flow to holding company interest is less than 3.0x. 18. When considering holding company stand-alone financial ratios, we calculate them as the average of the results we project for the current year and the first forecast year, weighted on a 50/50 basis. We could use a different weighting if we believe that one of the years is not representative of expected future performance. All financial metrics are calculated after making relevant analytical adjustments as defined in "Corporate Methodology: Ratios and Adjustments." 19. The sum of the assessments from table 1 translates into the notching in table 2. Table 2 Determining The Notching SUM OF ASSESSMENTS FROM PARAGRAPH 18 NOTCHES BELOW RFFG'S SACP* 1 or higher 1 notch 0 2 notches -1 3 notches -2 4 notches -3 5 notches -4 6 notches *Subject to the additional guidance in paragraphs 21 and 22. 20. When applying these criteria, the notching cannot lower the holding company's SACP below 'b-' (see "Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings" for the methodology we use to assign 'CCC' and 'CC' category SACPs and ICRs to issuers). 21. In addition to tables 1 and 2, the following guidance applies: The holding company's SACP is at least five notches below the RFFG's SACP and capped at 'b+' if the holding company's ratio of debt to available cash flow is above 4.75x. In addition, (a) we cap the holding company's SACP at 'b+' if the RFFG's liquidity is "less than adequate," as defined in "Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers," and (b) we would also cap the SACP at 'b-' if the holding company's liquidity is "weak" as defined in "Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers." The holding company's SACP is typically capped at 'b-' if we expect the RFFG to trigger a distribution lockup covenant within the next two years when applying an annual EBITDA stress at the RFFG of 10% or less, or within the next three years due to a breach of a nonfinancial covenant trigger at the RFFG. Nonfinancial covenant triggers could include, for example, a failure to maintain sufficient cash reserves to meet upcoming debt service needs; a failure to maintain sufficient funding to cover, over the next 12 months, capital expenditure and working capital needs; a shortfall in the debt service payment account; capital expenditure in excess of that assumed and compensated by a regulator or a failure by the RFFG to fulfil their undertakings. 22. The holding company's SACP is capped at: 'ccc+' if the presence of liquidity facilities means that we do not expect the holding company to default within 12 months, and we assess its liquidity as positive or neutral (see table 1), but (a) the RFFG depends on favorable business, financial, and economic conditions to prevent a distribution lockup covenant being triggered within the next 12 months, or (b) the holding company's financial commitments appear to us to be unsustainable in the long term. 'ccc' if (a) we expect the RFFG to trigger a distribution lock-up covenant within the next 12 months; (b) we anticipate that the RFFG may trigger a nonfinancial covenant dividend lock-up or event of default covenant; (c) we consider the RFFG likely to default without an unforeseen positive development; or (d) the holding company is likely to consider a distressed exchange offer or redemption for an amount less than what is contractually due in the next 12 months. 'ccc-' if the holding company's default, a distressed exchange, or the redemption of debt in an amount less than what is contractually due appears to be inevitable within six months, unless unanticipated, and significantly favorable, changes to the holding company's or RFFG's circumstances occur. We would always cap the SACP one notch below that of the lowest rated debt in the RFFG structure (or our estimate thereof, if we do not rate that obligation). However, this notching can't lower an issuer's anchor below 'b-' (see "Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings" for the methodology we use to assign 'CCC' and 'CC' category SACPs and ICRs to issuers). 23. Changes in the RFFG's SACP would result in the same change in the holding company's SACP unless mitigating factors affect the assessments in table 1. This is due to the link in the criteria between the holding company's SACP and the RFFG's SACP. 24. We factor into the SACP any ongoing support or negative influence from a government (for government-related entities) or from a group. Holistic analysis 25. Subject to the caps described above, we can fine-tune the SACP by adjusting it up or down by one notch, based on a holistic review of the holding company's stand-alone credit characteristics in aggregate. For example, if two or more of the factors in table 1 are neutral, but close to a positive assessment, we could adjust the SACP upward by one notch. Conversely, if two or more of the factors in table 1 are neutral, but close to a negative assessment, we could adjust the SACP down by one notch. Determining the ICR 26. The holding company's ICR is derived from the SACP and the support framework, which determines whether the ICR should differ from the SACP to reflect the possibility of extraordinary group or government influence (see "Group Rating Methodology" and "Rating Government-Related Entities: Methodology And Assumptions"). If group or government influence have no impact on the SACP, the holding company's ICR is the same as its SACP. 27. The ICR could be constrained by the relevant sovereign rating and transfer and convertibility (T&C;) assessment. For the ICR to be higher than the applicable sovereign rating or T&C; assessment, the entity must have met the conditions in "Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions." Liquidity 28. In assessing the liquidity of the holding company, our analysis uses the same general methodology as for other corporate issuers (see the corporate criteria and "Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers"). Under the methodology, we assess whether companies demonstrate prudent liquidity management to meet all forecasted intrayear debt maturities and working capital needs. A holding company would not receive an assessment of higher than "less than adequate" to the extent we observe liquidity management shortcomings that could lead to intrayear liquidity weakness, such as a timing mismatch between dividends received and debt service obligations that is not counterbalanced through other liquidity sources. Debt Issued By Holding Companies That Own Corporate Securitizations And Structurally Enhanced Debt Transactions 29. Holding Companies That Own Corporates Securitizations And Structurally Enhanced Debt Transactions are corporate entities. Therefore, we assign issue ratings using the same methodology we use for entities rated under Corporate Methodology. For example, see "Recovery Rating Criteria For Speculative-Grade Corporate Issuers," "Reflecting Subordination Risk In Corporate Issue Ratings," and "Hybrid Capital Methodology And Assumptions." APPENDIX: Glossary Of Terms Distribution lock-up covenant: This is a trigger included in the RFFG's financial covenants that stops all distributions from the RFFG to the holding company if certain financial covenants or nonfinancial covenants are breached. The financial covenants are typically transaction-specific and may include debt service coverage ratios, as well as ratios for debt to regulated asset value and interest cover. Holding company debt: The total debt outstanding at the holding company not included in the RFFG analysis. Available cash flow: The maximum cash that the RFFG could distribute to the holding company without breaching its distribution lock-up covenants. This calculation includes the holding company's share of the sum of free operating cash flow (FOCF) of the RFFG, additional debt the RFFG could raise without breaching covenants, any other allowed distributions, and FOCF of any other subsidiaries that are owned by the holding company. Holding company interest: This is the accrued interest expense, including any interest capitalized during the period. REVISIONS AND UPDATES This article was originally published on Feb. 24, 2016. These criteria became effective on Feb. 24, 2016. Changes introduced after original publication: Following our periodic review completed on Feb. 23, 2018, we updated criteria references. On April 16, 2019, we republished this criteria article to make nonmaterial changes. We updated the contact information and criteria references. On April 3, 2020, we republished this criteria article to make nonmaterial changes. We updated a number of criteria references throughout the article and updated the "Related Criteria" section. On March 31, 2021, we republished this criteria article to make nonmaterial changes to update the "Related Criteria" section. On Sept. 10, 2021, we republished this criteria article to make nonmaterial changes to update the contact information. On June 5, 2023, we republished this criteria article to make nonmaterial changes to update the "Related Criteria" section. RELATED CRITERIA AND RESEARCH Related Criteria General Project Finance Rating Methodology, Dec. 14, 2022 Group Rating Methodology, July 1, 2019 Corporate Methodology: Ratios And Adjustments, April 1, 2019 Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018 Global Methodology And Assumptions For Corporate Securitizations, June 22, 2017 Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016 Rating Structurally Enhanced Debt Issued By Regulated Utilities And Transportation Infrastructure Businesses, Feb. 24, 2016 Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015 Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014 The Treatment Of Non-Common Equity Financing In Nonfinancial Corporate Entities, April 29, 2014 General Criteria: Methodology: Industry Risk, Nov. 19, 2013 Corporate Methodology, Nov. 19, 2013 Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012 Principles Of Credit Ratings, Feb. 16, 2011 Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010