

General Criteria:

Global Investment Criteria For Temporary Investments In Transaction Accounts

May 31, 2012

(Editor's Note: On Nov. 23, 2022, we republished this criteria article to make nonmaterial changes. See the "Revisions And Updates" section for details.)

1. S&P Global Ratings applies these criteria for assessing temporary investments (as defined in paragraph 11) in rated securities. Transaction participants, such as servicers, administrators, and trustees, typically invest the cash they hold in collection and reserve accounts in short-term investments between the time they receive the cash and when they need it to cover the obligations of the issuer. The criteria consider the credit risk, as reflected in the rating assigned to the investment, and the maturity of those investments to address the full and timely payment of principal and interest on the rated obligation.
2. This paragraph has been deleted.
3. These criteria relate to the article "Principles Of Credit Ratings".

SCOPE OF THE CRITERIA

4. The criteria are global and apply to:
 - All new and existing structured finance transactions and covered bonds.
 - Corporate and government bond issues that possess structured finance characteristics (e.g., certain funds in letter of credit {LOC} backed transactions or revenue funds in single-asset multifamily housing transactions, equipment trust certificates, project finance transactions, insurance catastrophe bonds, and global structured energy transactions {including gas prepay financings}).
5. These criteria do not apply to:
 - Temporary investments that have a maturity that is longer than 365 days or represent all or substantially all of the assets backing the supported security (as defined in paragraph 11) unless the mitigating factors as outlined in paragraphs 14 and 19 below are available. These types of supported securities are typically rated using the "weak-link" approach.
 - Repurchase obligations of a rated financial institution. These types of financial institution obligations are now covered under S&P Global Ratings' counterparty criteria (see "Counterparty Risk Framework: Methodology And Assumptions," {"counterparty criteria"}). Deposit accounts

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insured by a government sponsor are no longer within the scope of the investment criteria. S&P Global Ratings' counterparty criteria also cover insured deposits (see counterparty criteria).

SUMMARY OF THE CRITERIA

6. The criteria establish the maximum potential rating that could be assigned to a supported security that falls within the scope of these criteria based on the rating and maturity of the temporary investment (see table 1). To qualify for treatment under table 1, a temporary investment must meet each of the following conditions:
 - If the temporary investment has a rating from S&P Global Ratings, the rating must be an unqualified rating (i.e., one with no qualifying suffix). However, ratings with the 'p' qualifier (see the section on Active Qualifiers in "S&P Global Ratings Definitions"), such as a bond rated 'AAAp', would qualify as long as the analysis of the supported security takes into consideration the credit risk of the principal and, if applicable, interest, portion of the temporary investment. In addition, ratings with identifiers, such as the 'sf' subscript and unsolicited ratings designation, would qualify.
 - The temporary investment must have a fixed principal amount due at its maturity and cannot include any embedded options (i.e., it is not callable, puttable, or convertible), unless full payment of principal is paid in cash upon the exercise of the option.
7. The criteria remove as eligible temporary investments obligations that are guaranteed by sovereigns or government-related entities (GRE), as well as direct obligations of GREs, if the obligations are unrated. However, an unrated temporary investment that is a senior obligation of certain GREs can qualify for treatment under table 1 as long as S&P Global Ratings views the creditworthiness of the temporary investment as equal to that of the sovereign and has included the obligation in the appendix.
8. The criteria remove the GRE obligations listed in paragraph 26 that were included in the previous version of the criteria. We believe these obligations are rarely, if ever, used as temporary investments. We believe the risk, therefore, that a supported security includes one of these obligations as a temporary investment and that a loss would be incurred on the supported security due to a default of such a temporary investment to be de minimis.
9. This paragraph has been deleted.
10. This paragraph has been deleted.

METHODOLOGY

11. Terminology: For purposes of this article, the term "temporary investment" means an investment in which cash from collections or held in reserve accounts is invested as permitted by the supported security's investment guidelines. The term "supported security" refers to the rated security to which the collections or reserve account relate.
12. Rating and maturity of temporary investments: Table 1 shows the maximum potential rating of a supported security based on the rating and maturity of a temporary investment.

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Table 1

Maximum Potential Security Rating Based On The Rating And Maturity Of Investment

	A	B
Maximum potential rating of supported security	Minimum rating of temporary investment maturing in 60 days or less.	Minimum rating of temporary investment maturing in 365 days or less.
AAA	A or A-1	AA- or A-1+ or AAAm†
A+	BBB or A-2	A or A-1
A-	BBB- or A-3	BBB or A-2
BBB- and below	(*) (§)	(*) (§)

*Long-term rating at least as high as the rating of the supported security. §If investing in a rated short-term instrument, then the long-term rating of the issuer should be rated as high as the supported security. The rating would be capped at the lowest long-term rating that correlates to the short-term rating (see "Methodology For Linking Long-Term And Short-Term Ratings") of the temporary investment if no long-term rating equivalent is specified in the supported security's investment guidelines. †Shares of a money market funds rated 'AAAm' apply at all rating levels. Shares of money market funds rated below 'AAAm' do not qualify for treatment under this table. For further clarification on 'AAAm' ratings, see "Credit FAQ: The Impact Of Money Market Fund Reform On S&P Global Ratings' Temporary Investments Criteria," May 11, 2016.

13. For example, if a supported security had a temporary investment rated 'A-2' for 60 days or less, the maximum rating of the supported security would be 'A+.' Conversely, a supported security cannot qualify for a 'AAA' rating if it allows 60-day investments rated below 'A-1'. Likewise, if a supported security has a temporary investment with a short-term rating of 'B' and the long-term rating of the issuer is 'BB+', then the maximum rating on the supported security would be 'BB+'. If the supported security has a temporary investment with a short-term rating of 'B' but no equivalent long-term rating is specified in the transaction documents, then the maximum rating on the supported security would be a long-term rating of 'B'.
14. The minimum rating for a temporary investment in column A of table 1 applies also to a temporary investment with a maturity of greater than 60 days if the supported security provides for (i) liquidating the temporary investment within 60 days following a downgrade of the temporary investment below the minimum rating level and (ii) covering any loss on the liquidation from another rated source. In such a case, the exposure to the other source would be analyzed as a counterparty exposure (see counterparty criteria).
15. In addition to the maturity limitations in table 1, to qualify for treatment under table 1, a temporary investment must satisfy either of the following two conditions: (i) it matures on or before the date the funds need to be applied in accordance with the terms of the supported security or (ii) the temporary investment is sold on or before the date the funds need to be applied in accordance with the terms of the supported security and the carrying value of the temporary investment within the related supported security is determined in accordance with the market value securities criteria (see "Methodology And Assumptions For Market Value Securities").
16. To qualify for treatment under table 1, a temporary investment must also meet each of the following conditions:
 - If the temporary investment has a rating from S&P Global Ratings, the rating must be an unqualified rating (i.e., one with no qualifying suffix). However, ratings with the 'p' qualifier, such as a bond rated 'AAA-p', would qualify as long as the analysis of the supported security takes into consideration the credit risk of the principal and, if applicable, interest portion of temporary investments. In addition, ratings with identifiers, such as the 'sf' subscript and unsolicited ratings designation, would qualify.
 - The temporary investment must have a fixed principal amount due at its maturity and cannot include any embedded options (i.e., it is not callable, puttable, or convertible), unless full

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payment of principal is paid in cash upon the exercise of the embedded option.

17. For purposes of applying table 1 to a supported security that is a covered bond, the rating levels in columns A and B refer to the higher of (i) the rating of the temporary investment and (ii) the rating of the covered bond issuer.
18. The rating of a supported security can be no higher than the rating of its temporary investment if either of the following two conditions applies: (i) the temporary investment has a maturity of longer than 365 days and paragraph 14 does not apply, or (ii) the temporary investment represents all or substantially all of the assets backing the supported security.
19. Notwithstanding item (ii) in the preceding paragraph, column B of table 1 applies when a temporary investment represents all or substantially all of the assets backing the supported security for a limited amount of time, for example, during a pre-determined "prefunding," "acquisition," or "ramp-up" period. In such case, given the supported security's exposure amount to the investments, column B of table 1 applies even if the security matures within 60 days. For example, if the issuer of funded synthetic securities invests 100% of the note proceeds for the life of the security in a temporary investment rated 'A,' the maximum rating on the funded synthetic security would be 'A'. However, column B of table 1 would apply if, for example, the temporary investment represented all or substantially all of the assets during a "prefunding" period that only lasted up to three years.
20. Creditworthiness of unrated investments: An unrated temporary investment can qualify for treatment under table 1 as long as S&P Global Ratings has assessed the creditworthiness of the temporary investment.
21. For example, the criteria treat unrated direct debt obligations of a rated sovereign as having the sovereign's rating for purposes of table 1 if the debt is a senior unsecured financial obligation of the sovereign.
22. The criteria would also treat a senior unsecured financial obligation of a GRE listed in paragraph 24 of the appendix as having the rating of its related sovereign for purposes of applying table 1.
23. The criteria would also treat unrated obligations of a financial institution (e.g., time deposits and certificates of deposit) as having the rating of the financial institution for purposes of applying table 1.

APPENDIX

24. The following are unrated temporary investments for which S&P Global Ratings views the creditworthiness of the senior obligations as equal to that of the sovereign:
 - U.S. Treasury obligations (all direct or fully guaranteed obligations);
 - U.S. Department of Housing and Urban Development public housing agency bonds (previously referred to as local authority bonds);
 - Federal Housing Administration debentures;
 - Government National Mortgage Association (GNMA) guaranteed mortgage-backed securities (MBS) or participation certificates;
 - RefCorp debt obligations; and
 - SBA-guaranteed participation certificates and guaranteed pool certificates.
25. The following senior unsecured rated obligations, which were included in the previous version of

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the criteria, continue to qualify for treatment under table 1:

- Farm Credit System (formerly Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives) consolidated systemwide bonds and notes;
- Federal Home Loan Banks' (FHL Banks') consolidated debt obligations;
- Federal Home Loan Mortgage Corp. (FHLMC) debt obligations; and
- Federal National Mortgage Association (FNMA) debt obligations.

26. S&P Global Ratings has removed the GRE obligations listed below as temporary investments, which were included as temporary investments in the previous version of the criteria. We are removing these obligations because we believe that these obligations are rarely, if ever, used as temporary investments.

- General Services Administration participation certificates;
- U.S. Maritime Administration guaranteed Title XI financings;
- Financing Corp. debt obligations;
- Farmers Home Administration Certificates of Beneficial Ownership; and
- Washington Metropolitan Area Transit Authority guaranteed transit bonds.

27. This paragraph has been deleted.

28. This paragraph has been deleted.

REVISIONS AND UPDATES

This article was originally published on May 31, 2012.

Changes introduced after original publication:

- Following our periodic review completed on March 31, 2017, we updated criteria references and deleted outdated sections pertaining to the initial publication of our criteria. We also added a reference to a related Credit FAQ published in 2016.
- Following our periodic review completed on March 27, 2018, we updated a criteria reference.
- On May 21, 2020, we republished this criteria article to make nonmaterial changes to update criteria references.
- On Dec. 14, 2021, we republished this criteria article to make nonmaterial changes to update criteria and related research references.
- On March 3, 2022, we republished this criteria article to make nonmaterial changes. We removed references to the inactive 'i' qualifier and clarified references to the 'sf' subscript and unsolicited ratings designation identifiers. In addition, we clarified Table 1 for the treatment of investments with long-term vs. short-term ratings. We removed a reference to a commentary article and updated analytical contacts.
- On Nov. 23, 2022, we republished this criteria article to make nonmaterial changes to update related criteria references.

RELATED PUBLICATIONS

Related Criteria

- Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Methodology And Assumptions For Market Value Securities, Sept. 17, 2013
- Methodology And Assumptions: Assigning Ratings To Bonds In The U.S. Based On Escrowed Collateral, Nov. 30, 2012
- Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- S&P Global Ratings Definitions, Nov. 10, 2021
- Credit FAQ: The Impact Of Money Market Fund Reform On S&P Global Ratings' Temporary Investments Criteria, May 11, 2016

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